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ABSTRACT

These five papers underscore the fact that the labor market policies of Japan, West Germany, the United Kingdom, France, and Australia are similar in many ways. The papers are "Japanese Labor Market Policies" (Koji Taira), "The Labor Market Policies of West Germany" (Deborah R. Cichon), "The Management of the U.K. Labour Market: 1973-1983" (Rodney Stares), "French Labor Market Policies" (Howard Rosen), and "Labor Market Policy Measures in Australia: Recent Changes" (P. J. McMahon). They focus on what the five countries are doing to counteract unemployment and underemployment. Topics include youth programs, employment creation, older workers, and training and retraining. (YLB)

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Conference Proceedings
of
The National Council on Employment Policy

April 25, 1985

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Foreword

America's labor market policies have, in the past, been strongly influenced by the programs of other industrialized countries. Prior to the passage of the Manpower Development and Training Act (MDTA) in 1962, a group of U.S. policy makers visited Sweden and was exposed to the concept of an "active" labor market policy. Shortly after the MDTA was passed, a team from the Organization for Economic Cooperation and Development (OECD) conducted a study of this country's employment and training programs. The career employees of the U.S. Department of Labor who exchanged information and ideas with the OECD team learned considerably about the operation of "active" manpower policies of some European countries. During this same learning period, several members of the Swedish Labor Market Board visited the U.S. and described their programs to American policy makers concerned with issues such as unemployment, the impact of automation on employment, the obsolescence of skills, and the need to train disadvantaged workers.

Although the U.S. never developed a comprehensive and coordinated set of labor market policies and institutions similar to those of Sweden, many of our programs were based on what has been learned from European models. Vocational training and retraining of the unemployed, the use of short-term public works to stimulate employment, and measures to encourage the occupational and geographical mobility of workers have become part of the arsenal of weapons included in America's employment and training programs.

The National Council on Employment Policy recognizes that the American economy and labor market problems of the mid-1980s differ in many respects from those that led to the early employment and training legislation. The U.S. and other industrialized countries are now grappling with such issues as

the displacement of workers due to international competition and the rise of multinational corporations, the effects of technological innovations on employment, major shifts in employment opportunities from manufacturing to the service sector of the economy, and the increasing labor force participation of women. The Council is also sensitive to differences in cultural and historical characteristics which may make country labor market comparisons difficult, if not irrelevant.

In spite of these differences, the Council believes there is much to be learned by studying what other industralized countries are doing to counteract unemployment and underemployment. Above all, the Council is of the opinion that U.S. policy makers cannot be complacent about our labor market policies as long as we have almost 8.5 million unemployed workers and another 1.3 million discouraged job seekers. The Council called this conference primarily with the hope that a review of the labor market policies of Japan, West Germany, the United Kingdom, France and Australia might stimulate the thinking of American policy makers about our own labor market programs.

Concern about the persistent problem of jobless youths and stagnant economies that fail to produce enough jobs for their expanding labor force seems to dominate the labor market programs of some of these countries. Except for Japan, each country has been forced to develop programs for young workers who are unable to get jobs when they transfer from school to the labor market. Programs to combat the joblessness of young job seekers have included expanding the apprenticeship system, combining work experiences and off-the-job training and subsidizing wages to induce employers to hire youthful job seekers.

In order to increase job opportunities in stagnant economies, some programs have been started to stimulate self-employment. The American economy's ability to create jobs has impressed other countries. Between 1970 and 1984, the

number of working Americans rose by more than 26 million. Contributing to this growth has been a significant expansion in the number of self-employed. Self-employment has been increasing for almost a decade and a half, with virtually no slowdown even during periods of cyclical downturns. Most of the gains in employment have been in the service sector of the American economy. In order to emulate the American experience, some countries are testing innovative uses of unemployment compensation to encourage unemployed workers to start their own businesses.

Youth Programs

Apparently, the joblessness of young workers is endemic in most of the countries studied. Even Japan, which has had less difficulty than other industrialized countries with unemployed youth, is now experiencing a rising rate of teenage unemployment--from 4.2 percent in 1980 to 6.9 percent in 1984. The quality of formal education received by Japanese youth before they enter the labor market appears to be more significant than the availability of jobs in determining their employment status. The educational system seems to perpetuate the unequal distribution of employment and career opportunities in Japan's relatively rigid and stratified society.

Unlike other industrialized countries, the Japanese government has not singled out the labor market problems of young workers for special attention. The effectiveness of the educational system in retaining a very high proportion of students who move from junior to senior high school and to college keeps unemployment down. Young persons who do not go to college are trained by their employers within the firm and on the job.

The author of the paper about Japanese labor market policies raises a basic question; namely, does Japan devote so little of its GNP to labor market policies by simply neglecting problems that attract a considerable amount of attention and

resources of other countries? For example, Japan is sitting on a time bomb of a rapidly growing older population which is being ignored by policy makers. Apparently, a revolution in attitudes and values will be needed before public policy will concern itself with the employment problems of older workers.

West Germany's labor market issues are not caused by the mismatch between the skills of young workers and available employment opportunities, but by a stagnant economy that is not producing enough jobs for a growing labor force. However, unlike other countries, the Germans do not permit their young people to flounder between public indifference and private inaction during the time they leave school to enter the labor force. Youth unemployment has been reduced by expanding the country's large apprenticeship system. School leavers must either be in the apprenticeship system or in a vocational training program until they reach the age of 18.

When the Thatcher Administration took office in the United Kingdom, it was more concerned with reducing inflation and removing "rigidities" in the labor market than in promoting programs to aid the unemployed. Some youth programs were abolished or curtailed. When a rise in unemployment was accompanied by urban riots, the new administration reversed itself. By 1983, it had revived and expanded the Youth Training Scheme (YTS) for all unemployed school leavers in the 16-17 year old age group. The YTS provides a year long mixture of work experience and off-the-job training.

The U.K. has one of the largest percentages among the European community nations of young persons leaving the educational system without receiving apprenticeship, technical or vocational training. A by-product of the neglect of the apprenticeship system was a drop in enrollment to only half of what it had been in 1968. The number of young persons enrolled in apprenticeship programs in the mechanical engineering industry, road transport, building trades and printing is far less than the future needs of these industries for skilled workers. An

effort is now being made to expand and modernize the apprenticeship system so that it will be more flexible and responsible to the needs of British employers.

Because of the poor economic climate of the U.K., the government appears to be following a holding pattern strategy by increasing training time for unemployed youth and putting long-term employed adults into low-paying and part-time jobs. Unless the economy begins to produce more jobs, the government may soon be forced to reduce its dependence on free market forces to resolve its unemployment problem and intervene more actively in the labor market.

The French have tried to reduce youth unemployment by "youth unemployment pacts" which include employment assistance and training. In one program, young persons are given work training and vocational education. Another program subsidizes employers for each hour of training if they hire and train young workers. This is the largest French youth program.

The French government has now adopted a policy that provides all young persons between the ages of 16 and 18 who are not taking higher education with paid training opportunities that last from 6 to 12 months. The apprenticeship programs are also being expanded in order to reduce youth unemployment. Employers are being given financial inducements to hire more apprentices.

A recent comprehensive study by the Australian Committee of Inquiry into Labor Market Programs has produced a report which is expected to have a profound influence on Australia's future labor market policies. The major recommendation of the committee calls for the establishment of traineeships for a minimum of one year involving part-time work and off-the-job-training. School leavers, 16 to 17 year olds who have not completed the last year of high school, will be eligible for traineeship.

The committee has also recommended an increase in apprenticeship programs to 43,000 entrants per year. The U.S.

with a labor force 16 times the size of the Australian work force only admits 40,000 new apprentices each year.

West Germany, the U.K., France and Australia are beginning to realize that a gap exists between educational and labor market institutions which permits too many young people to enter the world of work with little or no work experience and/or training. Schools have no responsibility for the labor market experience of their dropouts and graduates, and public and private labor market institutions rarely reach out to help many young persons transfer from school to the labor market. These four countries are now beginning to offer employment and training programs to most of their young, unemployed school leavers. The U.S. has never attempted to provide work experience and skill training to most or all teenagers who lack vocational preparation before they enter the labor market.

This country's minority youths consistently have far higher unemployment rates than our white youngsters. In mid-1985, more than 40 percent of American black teenagers were jobless as compared with about 16 percent of white teenagers. We permit too many of our young people--whether they be school dropouts or high school graduates--to enter the labor market with little or no vocational training. Many of our minority young workers receive little training once they are employed because, unlike many Japanese employers who train or support the training of their youthful employees, few American employers are willing to take on this responsibility. Macroeconomic policy alone has had little impact on the unemployment rate of minority youth. Selective manpower programs, which include training and job search assistance, are also needed to bring these young people into the mainstream of our labor force.

Germany, the U.K., France and Australia are in the process of using and expanding apprenticeship programs as one of the ways to reduce unemployment. For a variety of reasons, the U.S. has not made use of the apprenticeship system to combat youth unemployment. Our apprentices are older; their

wages are higher; coordination among unions, employers and public and private training institutions is difficult to implement; unions concerned with controlling the supply of workers are not enthusiastic about expanding apprenticeship opportunities; management costs are high; and the limited number of occupations are some of the reasons why we have so few apprentices.

However, in view of this country's continuing and intractable youth unemployment problem, it would appear that an expansion of apprenticeship programs might appear warranted. Structured traineeship programs that combine work and training within a shorter time period than apprenticeships also might be tested as a technique for reducing the unemployment of our young workers. Expansion of apprenticeships and traineeships for the welfare of our youth, which places greater responsibility upon educational and training institutions and employers, might have a positive impact on a problem which has been plaguing American society for many decades.

Employment Creation

During the past decade, many countries have suffered with stagnating economies that have failed to produce a growth in employment. Europe lost 1.5 million jobs in the past decade at the same time that the U.S. economy created 15 million new jobs. In an effort to stimulate employment, the U.K., France and Australia are offering programs to help the unemployed establish their own businesses. These countries now encourage unemployed workers to use their unemployment compensation as a capital base so that they can become entrepreneurs.

The Enterprise Allowance System (EAS) of the U.K. provides entrepreneurial training to unemployed workers interested in setting up their own businesses. In addition, entrepreneurs are given basic social security salaries for a year while their new businesses are being started. Since EAS was

started in 1979 as a national program, some 65,000 people have taken advantage of the opportunity to begin their own businesses.

France also introduced an experimental program in 1979 which enabled French unemployed workers entitled to unemployment compensation or welfare to choose a lump sum benefit to start a business. By 1980, the French enlarged this program from pilot to national coverage. Participants are also eligible to receive entrepreneurial training from available government programs. The funding of this program now comes out of general revenues rather than out of the unemployment compensation fund.

Studies of the U.K. and French programs indicate that about 80 percent of the small businesses were still operating after the first year of assistance from the government. The Australian scheme for stimulating self employment is in the process of being tested before it is made into a national program.

The U.S. has not been very imaginative in more actively using the down time of unemployed workers for training or for employment stimulation. For the most part, unemployment compensation has been used possibly as income transfer that does little to improve the long-term job prospects of the unemployed.

Most new businesses in the U.S. appear to start with capital drawn from the owner's personal savings and borrowing from friends, family and associates. However, the combination of personal capital and the availability of lump sum unemployment compensation might encourage some unemployed workers to begin their own businesses, which might reduce unemployment and increase employment. Experiments to test whether the availability of lump sum capital would encourage unemployed workers to become new entrepreneurs certainly deserves careful consideration by policy makers.

The papers presented at this conference underscore the fact

that the labor market policies of these countries are similar, in many ways.

JAPANESE LABOR MARKET POLICIES

by

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Social critics in Japan are bored to death for a lack of issues to debate. One could nitpick and quibble. But as soon as someone points out, "We are doing much better than any other country," no criticism of Japanese conditions can hold the audience. Euphoria, not critique, becomes the only acceptable mode of speech. Foreign observers, chastened by problems of their countries, find flatteries as the only permissible comments on Japan (Vogel, 1979; Ouchi, 1981). With respect to the labor economy, Japan's unemployment rates are so low even when recalculated by American concepts and methods (U.S. Government, 1985) that "full employment" is the only conceivable description of the Japanese economy by international standards. While America considers 6.5 percent a minimal unemployment rate compatible with an acceptably low rate of inflation, Japan's actual unemployment rates combined with even lower inflation rates do not even reach 3 percent. Numbers then effectively disarm anyone wishing to find faults with Japanese economic performance. Who, or what, should take credit for this excellent state of the economy is a potentially controversial topic, although it does not seem to excite any Japanese. If it is unbelievable that the market forces alone could have brought this about, a share of the credit must go to public policy. But no one has convincingly demonstrated how large that share should be. The truth of the matter is that in Japan the market forces and state-administrative interventions are much more integrated in day-to-day economic activities so

that even the expression "mixed economy" fails to be an adequate characterization of the Japanese economy.

Fortunately for critics, the problem-free overall picture of the economy can still be shown to contain some potential problems by disaggregation. For example, unemployment rates are higher than the average rate among younger and older men. In 1981, a relatively good year in Japan when the average unemployment rate was 2.2 percent male unemployment rates for the groups 15-19 and 20-24 years were respectively 6.8 percent and 3.6 percent. In the same year, among older men in the age groups of 55-59 and 60 and older, the unemployment rates were 3.6 percent and 3.8 percent respectively. Statistically, women in Japan seem less likely to be unemployed than men. In 1981, male and female unemployment rates were 2.3 percent and 2.1 percent on the average. It is pointed out that the American labor force concepts and methods would put women's unemployment rates at much higher figures (Taira, 1983; Sorrentino, 1984). However, it is also argued that the additional female unemployment which is found by the American concepts and methods implies no social problem (Nagayama, 1984). On the basis of the official Japanese labor force survey, many Japanese believe that without a strong sense of attachment to the labor market, Japanese women frequently move between jobs and housekeeping, largely bypassing the unemployment status.

The Japanese dislike the word unemployment so much that they would try to avoid calling anyone unemployed as much as possible. Since unemployment is technically an alias for job search, Japanese women's low unemployment may only mean a relative lack of job search efforts, which may result in careless job choices when jobs become available. A look into what employed women do suggests that if unemployment is not a problem for women, under employment is, because women are predominantly in low-paying, low-status, unstable, dead-end jobs. For the moment, however, we may go along with the

popular Japanese view that women have neither under employment nor unemployment problems and concentrate on quantitatively clear cases of above average unemployment rates among younger and older men.

Younger Workers

In Japan, younger workers and older workers show polarized characteristics. Demographically, the population of younger Japanese is diminishing as a long-term trend; it peaked in the late 1960s. The population of older Japanese is increasing at an alarming speed. High school and college enrollments among younger Japanese drastically reduce their labor force participation. Though many of them are technically "retired," older Japanese are still in the labor force. Demand for younger workers is extremely strong; job openings for which they are wanted exceeds the number of younger job seekers by a few multiples. In contrast, job openings for older workers are only a small fraction of older job seekers. Thus, high unemployment appears bogus among younger Japanese, but quite serious among older Japanese. The dynamics of age structure and labor force have forced Japanese firms to reassess and revise their human resources policies many times.

Education is compulsory through junior high school, that is, 9th grade. Enrollment in high school and college increased by leaps and bounds during the two and a half decades before 1975. Under the relatively stable structure of enrollment by level of education since 1975, one may broadly say that about 95 percent of boys and girls leaving junior high school move on to senior high school and that more than 40 percent of boys and more than 30 percent of girls graduating from senior high school advance to college. Japanese firms shaped their basic personnel practices during the days when a large and increasing number of youth entered the labor force at the end of compulsory education. How to train these young, naieve, inexperienced and

impressionable youth into a productive work force was an important aspect of work force management that firms paternalistically responded to. Very soon, however, employers faced an increasing scarcity of junior high school leavers and a relative abundance of senior high school graduates. When they had adjusted to this new state of labor supply, employers again faced another upheaval: a relative abundance of college graduates. On the whole, Japanese employers have adapted reasonably well to changing conditions of labor supply at the entry level of the work force. All the while, however, the time bomb of an aging population has been ticking on, to which employer responses have been inadequate (as discussed in the next section).

Partly aided by the strong excess demand for their labor services, Japanese youth are frequent job changers. In large firms where career prospects are the best, younger workers of 15-24 years of age show annual separation rates higher than 20 percent. In smaller firms, the separation rates are higher than 30 percent (Koike, 1983). The frequent job changes are in part responsible for the higher-than-average unemployment rates of younger workers. One may consider the unemployment of young Japanese largely voluntary.

If there are problems for young workers in Japan, these are not in the labor market but in Japanese society at large, especially in societal attitudes toward education and the peculiar pattern of distribution of educational opportunities. What one gets out of the labor market is determined to an important degree by the quality of preparations for entry into the labor force. This means the level of formal school education one obtains before labor participation. This in turn depends upon how the parents care for their children's education. The parents' ability to plan and finance their children's education depends on how well-off they are, what their educations are, and what their employment is. Despite popular claims to the contrary, social stratification in Japan has been quite stable,

ensuring inter-generational continuity of occupational status, i.e., "occupational inheritance" (Bowman, 1981; Rohlen, 1983). "Occupational inheritance" is mediated by education.

In Japan, more so than elsewhere, college education is indispensible for administrative and managerial careers. The best of these require education at the most prestigious universities of the nation. For example, the executives of major corporations and the ranking officials of the state administration are predominantly graduates of Tokyo University, supplemented by those of five more "big name" universities (Mannari, 1974; Rohlen, 1983; Taira and Wada, forthcoming). The other hundreds of universities and colleges are not significant as sources of supply for future business and governmental leaders. Moreover, the Japanese system of education offers no second chance; there is no way of going back to college at a later stage of the life cycle to pick up needed qualifications after years of practical job experience. If one aims at a career in business or government, one should obtain the desired level and quality of education in one unbroken series from compulsory education through college before one participates in the labor force. Failure to do so dooms one to the lifetime of a second-rate career. The only exception allowed to the rule of unbroken educational progress is an interruption for a year or two between junior and senior high schools, or between senior high school and college, due to failure at the first sitting for the entrance examination. During this period of interruption, the young Japanese attend the "cram schools" (yobiko) solely for the purpose of learning the art of passing the entrance examinations at the next try. The cram schools come under the supervision of the Ministry of Education (MOE) as "miscellaneous schools."

The path to success in Japan is narrowly defined, beset with several gates to go through which become narrower one after another (semaki mon). A minimum strategy is to enter an academic school (rather than a vocational one) and to move on to a university. At each stage there is an entrance examination.

The better the institution one wishes to enter, the more competitive the examination. Among the junior high school leavers who go to senior high school, two-thirds go to academic high school and one-third to vocational school in agriculture, fishery, industry, commerce, home management, welfare, etc. Although many of the graduates of the vocational high schools go to college, their chances for entering any of a dozen or so universities which promise successful careers are rather slim. Even among the academic high school students, half of them are bound to fail at the first entrance examinations they take.

Some of the high school graduates not going on to college may opt to attend public vocational training institutes under the jurisdiction of the Ministry of Labor (MOL). At these institutes, the youth learn basic skills for various periods ranging from six months to three years and can obtain skill certificates from MOL by passing skill tests. Their employers, however, are likely to be small-and-medium-sized enterprises which prefer this way of recruiting skilled workers over in-house training. Since wages and working conditions are much worse in these enterprises than in larger firms, entry into the world of work through the individual acquisition of skills means a sure failure by Japan's criteria of occupational success. This applies more or less to the graduates of vocational high schools. Large reputable employers of Japan value potential ability and trainability more than actual skills with which workers apply for employment. For women, a four-year college degree is a minus factor with respect to employability, because Japanese employers prefer female graduates of two-year junior colleges.

MOE also supervises "miscellaneous schools" (kakushu gakkō), where youth can acquire training in specific skills such as bookkeeping, computer programming, etc. However, the cram schools (yobikō) account for a quarter of enrollment in these schools. In 1976, the School Education Law was amended to elevate some of the better run miscellaneous schools to the status of "specialized schools" (senshū gakkō).

Enrollment in specialized schools has since increased rapidly, due mainly to the conversion of miscellaneous schools to this form and transfers of students from miscellaneous to specialized schools. In 1980, enrollment in specialized and miscellaneous schools stood at 67,000.

Thus there are two systems of vocational education and training in Japan, one run by MOE and another by MOL. The MOL system is open not only to younger workers, but to workers of all ages who, if employed, would like to upgrade or update their skills or who, if unemployed, would like to acquire marketable skills (OECD, 1973; Umetani, 1980). In the 1970s, the number of "basic trainees" fluctuated around 60,000. The adult trainees for skill upgrading or updating and for occupational capability redevelopment were more numerous, averaging more than 140,000 in the 1970s. The small and apparently stagnating number of trainees in MOL's public vocational training system may reflect a low valuation that the Japanese employers and workers place on such training. The mainstay of training in Japan is within the firm and on the job.

It is of interest to note that the two systems of vocational education and training attract different kinds of students and trainees (Odaka II, 1982). Youth (19 years or younger) are a smaller proportion of the MOL trainees (41.8%) than of the MOE students (63.0%). The MOL trainees are predominantly male (83.8%), while the MOE students are largely female (66.7 %). Among the MOL trainees, the proportion of junior high school graduates (48.1%) is larger than that of senior high school graduates (45.0%). The relationship is reversed among the MOE students (13.4% against 79.5%). Most interestingly, the MOL trainees are overwhelmingly training in skills for industrial and construction trades (88.4%), while a small minority of the MOE students (13.9%) are training in these skills. Thus, it appears that most of the MOE students are female high school graduates training for office work or service

trades. Both systems' participants want to become self-employed eventually. For the time being, they are willing to work for wages. Although more than one-fifth of the MOL trainees hope to work for large firms, the record of past trainees shows only 7.7 percent succeeded in getting jobs with these desirable employers. In contrast, the MOE students show higher aspirations (35.3% hoping to work for large firms) and better results (20.3% of past students succeeding in doing so) than the MOL trainees. It is generally understood that even if these students or trainees are hired by large firms, they are likely to be treated as "mid-career recruits" (chūto saiyōsha) and considered less desirable than the "standard recruits" fresh out of school.

The preceding paragraphs indicate that Japan is a rather rigidly stratified society and that the educational system is very much part of the forces that perpetuate the unequal distribution of employment and career opportunities. The stable rank order of universities with Tokyo University at its top is the mechanism that allocates desirable career opportunities. Given this role of higher education, competition for better jobs and higher incomes which in other countries takes place in large part in the labor market is pushed outside the labor market and takes the form of competition for admissions to desirable high schools and colleges. This competition does not just happen at the time of completion of nine years or 12 years of schooling. To be successful at these critical points of life, youth and their families have to make constant preparations for the entrance examinations during the whole 12 years. Even this is not enough. The same logic carries the beginning of the preparations to the moment of birth. It can go farther back: marriages must be planned carefully so that the couples may produce children endowed with the requisite ability to withstand the rigors of preparations for university admissions during their first 18 years from birth through senior high school.

Knowing the entrenched rules of the game mentioned above, why would any right-minded young Japanese ever

participate in the labor force without first going to college at the nation's best universities? First of all, the knowledge of the nature of the game and the motivation for playing it are not uniformly distributed over all individuals or families. Many of those willing to try are chastened by failure to pass the entrance examinations. Some youth simply do not try, feeling that the cards are already stacked against them. The next best chances of high school youth who do not succeed in advancing to college are to get jobs in large and reputable firms with considerable growth potential. In this case, careful job search should be productive. The youth are assisted by their schools' placement services in close cooperation with MOL's public employment security offices (PESOs). Reputable firms often limit recruitment to several select high schools at the risk of failing to hire better workers who may come out of other schools.

Among high school graduates, after some have gone to college and some have been hired by firms, there remain those youth who do not know what to do. They may continue to be "students" at MOE's "miscellaneous" or "specialized" schools. Some of them may try MOL's vocational training institutes. After varying periods of education or training, they join the labor force with firms that are perhaps inferior to those that their peers joined upon graduation from high school. Those who have gone to college will later join them in the world of work, destined to be their superiors in due course. In Japan, differentiated life course for different individuals become fairly transparent very early in their working lives (Umetani and Reubens, 1983).

Older Workers

Japanese workers over age 40 experience a mid-life crisis. The crisis is greater for the more stable and steady employees than for more independent and adventurous types of men who have experienced voluntary or involuntary job changes. The

employees who approximate the stereotype of "lifetime employees" (those recruited fresh out of school who remain with the same employers to date) are particularly effected, because the conventional wisdom is that they are paid more than their performances (productivities) justify, and they are made to feel that they are perhaps overstaying their employers' welcome. All this arises from the Japanese wage system known as Nenkō wages, where salaries start low at entry and rise steeply over the period of employment ending in mandatory retirement when employees are paid lump sum benefits (Taira, 1984).

The popular interpretation of the effect of this steeply rising wage profile from entry to retirement is that employees are paid lower than their productivities during early, post-entry years and paid higher than their productivities justify during later, pre-retirement years.

No one knows for sure, however, how the wage-productivity relationship changes over time for an employee. Sound or unsound, the system of Nenkō wages as understood by management as a system of deferred payments influences management's thinking and strategy. Management can be extremely considerate toward young workers who are producing more than paid and extremely demanding toward older workers who are paid more than they produce. How to weed out the worst and retain the best from among older employees, which no one so blatantly admits to doing, becomes a matter of central concern to the employer.

Fortunately there is a legitimate reason for weeding people out as they age in an organization: the supply of appropriate job grades or employee ranks to which older workers can be promoted becomes scarce as they climb the organization pyramid. This means that more and more long-term employees hit the ceiling of promotability beyond which they cannot be promoted. After a few rounds of horizontal transfers and some "promotions" in rank only, about which Japanese firms are

quite ingenious, the merry-go-rounds become tedious and employees burn out. Then it becomes clear, especially to the younger subordinates, that the older incompetents are just sitting in their jobs or ranks only to block younger employees' upward mobility. "The air becomes stale and ventilation (kazedoshi) is needed," in the language of Japanese management. Fortunately again, the firms with which workers willingly stay long enough to hit the promotion ceiling are usually large, well-established ones, each commanding an empire of subsidiaries, affiliates, suppliers, retail outlets, foreign ventures, etc.

Thus, to put in the American equivalent of the matter, the "deadwood" is fired at the parent company, but immediately outplaced in a unit somewhere within its empire. Employees who are not properly loyal enough to accept this offer are manipulated into voluntary resignations with some farewell gifts of sweetened severance payments. Many instances of outplacement would require residential moves over considerable distances, pains of which could be worse than job changes in the local market. In Japan, however, the pains are absorbed by the out-posted men only. They leave their families behind and go alone (tanshin funin). The prime reason for such family separations is that the wives and children are already entangled in the previously mentioned game of entrance examinations for high school or college in the community of their residence which the families previously chose with great care for its access to good educational opportunities for their children. Moving a family at this critical juncture of the family life cycle could be disastrous for the children with respect to their career plans. So men go alone as if to war. Some of these "fatherless" families encounter unanticipated problems that lead to another form of ruin for the children: family break-up. Unfortunately (to observers), Japanese society generally views these incidents as due mainly to the moral weakness of the victims, who are unworthy of sympathy by Japanese standards of virtues. Employers are simply demanding the same moral fortitude

from their employees as society at large demands from everyone.

As they pass age 50, long-term employees of Japanese firms become preoccupied with their teinen (retirement), which has now moved into shooting range. The teinen age previously was 55 years in a majority of firms. By 1983, 46 percent of the firms had raised the age to 60 years and 31 percent of firms remained at 55 years, with remaining firms (about 30%) setting retirement age somewhere between 55 and 60 years, or even beyond (MOL, 1984). Men who retire from firms often remain in the labor force, participation rates being 91 percent, 76 percent and 39 percent for men in the age brackets of 55-59, 60-64, and 65 plus respectively. The labor market demand for older workers is extremely weak; there are many more older job seekers than there are job openings. A high unemployment rate results. Older workers who find employment often do so by accepting wages one-half to one-third of the peak earnings they enjoyed in their late forties and early fifties.

In many firms, the extension of the teinen age to 60 in recent years was essentially bogus. A popular trick was to terminate the employee at 55 as usual and to rehire him at reduced pay as temporary help, with short contracts renewable until 60 at the pleasure of the employer. Even an genuine extension of the teinen age was accompanied by tradeoffs not entirely welcome to employees. The extension to 60 for some was made possible by reducing the teinen age to 40 or 45 for other workers in the name of selective voluntary retirement with a formalized and strengthened machinery for career counseling every five years after age 35 to determine who would benefit more by moving out. Another unavoidable tradeoff took the form of wage concessions. The steeply rising wage profile over the hypothetical working life of an employee between entry and retirement previously mentioned was based upon the teinen age of 55. If the working life had to be extended to 60, the whole lifetime earnings had to be recalculated, resulting in a flatter wage profile over a period ending at 60. Employers might have seen a

major cost cutting opportunity in all this; e.g., the flatter wage profile combined with selective voluntary earlier retirement could net the employer handsome gains in total wage cost of the work force. In addition, promotions were spaced over longer intervals. Potentially prejudicial outcomes to employees from the management of the teinen age extension and the manner in which unions respond to or participate in the management of change are rarely talked about in Japan. Careful, in depth studies could reveal and deal with some of the problems of teinen extension.

In order to survive the rigors of the unstable labor markets for the aged, individuals must be "street smart," a quality or attitude that long-term employees in one firm generally lack. Shut out by their former employers and barred from employment by similarly desirable firms, the post-teinen workers must acquire new skills or expertise usable in widely different work situations. But they are largely on their own for the acquisition of such skills or expertise. A MOL survey (1983) points out that 50.1 percent of the surveyed firms offer some help to their soon-to-retire employees for their self-help development efforts. The help takes the form of tuition and fees paid,, special in-house lectures, or leaves of absence, either paid or unpaid. Capability redevelopment programs at MOL's training institutes, which appear to be better-known to older than younger workers (Odaka, II, 1982), can be of help in this respect. Profit-maximizing firms cannot help being lukewarm toward training employees for post-retirement work for the simple reason that such an investment yields no return to the firms.

It is clear that there is ample room for public policy to improve employment opportunities for older Japanese. The problems are basically attitudinal, however, and bred of long tradition, impervious to a mere technical solution at the labor market level. Add to these the problems born of excessive preferences for younger workers and undue discrimination against women. What is needed is obviously nothing less than a

revolution in attitudes and values. Although skills do not disappear as soon as employees hit a certain prescribed age, attitude can blind people against the productive uses of older workers.

The plight of older workers has recently become a major concern to MOL (Seki, 1980). MOL has established guidelines to encourage firms to employ older Japanese and monitors their performance with reference to a quota of older workers in the firms' work forces. However, large firms where the best jobs exist are major offenders of the guidelines. MOL has also been pressing for a general adoption of 60 years as the teinen age, but its success has been limited, as described in preceding paragraphs. Nevertheless, it is clear that MOL has lately itensified "administrative guidance" (Japan's well-known trademark of government-business relationship) to obtain desirable results.

Labor Market Institutions and Policies

The Ministry of Labor (MOL) is active and interventionist like any other unit of the Japanese State bureaucracy. It runs an extensive business of labor market intermediation through its nationwide network of nearly 500 Public Employment Security Offices (PESOs). Every month, about one-fifth of accessions to new jobs are cleared through PESOs. Schools and colleges also run their own placement services for their students in close collaboration with MOL. By law, labor unions are also authorized to engage in labor market business and some 40 unions are in business (Koshiro, 1983). However, law forbids private fee-charging labor market business in order to prevent the kinds of abuses that workers suffered at the hands of racketeers who ran prewar labor exchanges. This legal ban has recently been relaxed to some extent to allow private firms organized for supplying temporary help in a variety of services such as janitoring ("building maintenance"), security guard,

office work, data processing, computer programming, etc. Most job changers and seekers operate individually by availing themselves of their own personal networks and job information obtained through advertisements and specialized publications. "Head hunting" magazines have suddenly mushroomed in Japan. One major phenomenon of this kind is *Travail* (in Japanese) catering to women job seekers. The popularity of this magazine is half seriously considered a "major cause" of the recent upsurge of women's labor force participation (Shinotsuka, 1984).

There is no doubt that Japan's PESO network represents a substantial labor market instrument which can be used flexibly as public policy adapts to changing economic conditions. It scored well when it was examined by OECD in 1970-71 (OECD, 1973). It had already pioneered a computerized data transmission system linking all PESOs with the Labor Market Center. This enabled the PESO system to handle specialized job openings and job seekers in addition to the more conventional turnover placements. By the time of the OECD review, the PESO system had already expanded to include "Talent Banks," which served post-teinen managerial and technical workers. More recently, in 1980, it began to aid and assist "Silver Human Resources Center" ("silver" being short for "silver-haired"), organized by local governments and community action groups to better utilize post-teinen workers for gainful employment and community work. In 1981, it opened "Part-Time Banks" "to provide specific vocational counseling and placement services for part-time workers" (JIL, 1982). After the Oil Shock of 1973 and as the Japanese economy settled down to more modest growth rates than formerly, the market clearing function of PESO increased substantially.

A major impetus for the reorientation, reorganization and expansion of the PESO system was provided by the new Employment Insurance Law of 1975, which superceded the former Unemployment Insurance Law. The change was not

merely in name; the entire philosophy underwent a revolution. In addition to the management of employment insurance benefits by resources raised through 1.1 percent payroll taxes (equally shared between employer and employee), the Employment Insurance System provides additional services financed by .35 percent surcharges on payrolls borne entirely by employers.

With the onset of the first real recession (economic growth turning negative for the first time in Japan's postwar history) in 1973-75, Japan discovered cyclically vulnerable industries which were under pressure laying off workers. The possibility of cyclical layoffs was compounded by that of structural unemployment due to the emergence of structurally depressed industries under the energy price revolution, rapid technological changes, and developing countries' competition. One of the new services made possible by additional payroll taxes on employers included wage subsidies to hard-hit firms so that they could keep redundant workers employed during the non-working (laid-off) periods. These subsidies enabled the vulnerable firms to finance wage payments to a monthly average of some 100,000 laid-off employees and to employ workers in 1975. The scheme of wage subsidies to employers financed by payroll taxes on employers amounted to a new form of unemployment compensation (which in the United States is made directly to laid-off workers). But semantics is extremely important in this connection: in Japan, no one dares associate the scheme with unemployment, a taboo word to the Japanese. The payments are for "employment stabilization," not for income maintenance for the unemployed.

The new Employment Insurance Law has brought about four groups of services: (1) employment stabilization, mentioned above, (2) improved employment structure, (3) employee ability development, and (4) employee welfare (Harari, 1978; JIL, 1982). The second group of services has to do with administrative guidance combined with subsidies to improve employment structure by age at the enterprise level (by employing more

older workers), to encourage plant relocations to equalize inter-regional employment structure, and to facilitate job changes of displaced workers from declining industries. The third group of services refers to counsel and assistance to firms for more employee training either within the enterprise or, by measures like paid educational leave, outside the enterprise. The fourth group of services includes construction of housing units for transferred employees; job search counsel to job seekers; educational, cultural, and recreational facilities for young workers, etc.

MOL carries on these activities, the MOL budget is only 1.5 percent of Japan's GNP (based on the Japanese government's 1983 budget). The aggregate of services mentioned in this paper is about one-third of the MOL budget, or 0.5 percent of GNP (American Embassy in Tokyo, 1983; for earlier partial data, OECD, 1979). The 1976 data on different OECD countries' expenditures on manpower adjustment measures such as improvement of the labor exchange, training, and job creation and maintenance show Japan's expenditures amounting to .30 percent of GDP as compared with America's .71 percent. In 1976, Japan's official unemployment rate was 2.0 percent, while America's was 7.6 percent (OECD, 1979). On the whole, then, with relatively much lower expenditures for labor market services Japan has succeeded in minimizing unemployment more effectively than other countries.

Conclusion

On reflection, one awkward question may be asked, although answering it properly would require an impossible amount of comparative research. Japan gets away with "cheap" labor administration in relation to Japan's GNP. Is this because Japan neglects problems which in other countries demand considerable attention and expenditure? This question

may be generalized: Is it good to make the cost of government small by not paying attention to problems which by reasonable standards of justice government must cope with?

No quick answers are possible to these questions. One point may be emphasized with respect to Japan, however. Japan's small but effective government is made possible by one institutional advantage Japan has over other countries: i.e., the high-quality State bureaucracy and the public's trust in its civil servants. The public's trust in the State bureaucracy is demonstrated by the fact that in Japan, the bureaucrats are *de facto* lawmakers. They are entrusted with this supreme function of government because they are the cream of Japan's human resources--graduates of Tokyo University. (What Tokyo University means in Japan's system of education was touched upon in the first section of this paper.) To enable the bureaucrats to serve the country with a relatively free hand, an interesting legislative practice has long been in use; that is, bureaucracy's almost unbridled power to initiate bills for short-term special or emergency measures targeted on specific problems which the bureaucracy considers "problems" at its own discretion. For example, if a certain industry has to be phased out by industrial policy (which originates in another ministry - the notorious MITI), the Ministry of Labor quickly comes up with a special measures bill to facilitate the retraining and redeployment of the workers about to lose jobs in the targeted industry. The national legislature (the DIET) enacts it into a law for a limited term, say three, five, or seven years. Measures and resources prepared in advance in this way reduce the risk of social unrest which but for such preparations, would no doubt erupt.

Short-term special or emergency laws come and go in quick succession; so do economic problems to which public policy must respond. If a major permanent law is hard to pass due to political complications, a large bundle of temporary special measures laws can be passed with a minimum of political wrangling to achieve the same intended results. With or without

laws, the State bureaucracy of Japan is also active in coping with potential and actual problems through "administrative guidance." If Japan appears to be in peace and contented (although no one knows how long that will last), legislative flexibility and administrative guidance effectively used by an intelligent State bureaucracy for preemptive strikes at potential and actual problems must be credited with a share of recognition as forces that have brought about the blessings of peace and contentment Japan now enjoys.

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The Labor Market Policies of West Germany

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Introduction

West Germany has an extensive labor market policy. As in other Western European countries, Germany's policy consists of both (i) general measures to improve employment (macro-economic policy, education and welfare programs, and economic development programs) and (ii) "selective" labor market policies targeted to meet the needs of particular groups, particular industrial sectors, or particular regions of the country. This paper briefly reviews Germany's labor market, with a particular emphasis on three subjects: how the German policy developed, which institutions carry it out, and how German policy is coping with the country's current unemployment.

One theme runs throughout the paper: Germany's post-war labor market policy, developed in the 1950s and 1960s, still reflects the particular economic needs and political constraints of that era.

The 1950s and 1960s were the time of the "economic miracle," and Germany did not suffer from unemployment. Even with new workers from Eastern Europe, Germany faced labor shortages, particularly in key technical areas of its highly industrialized economy. Unlike Sweden, whose policies were designed to help workers in periods of high unemployment as well as boom times, the German policies were designed to meet the needs of an expanding economy. Moreover, Germany's workers generally were well educated, largely because of the

country's extensive vocational and apprenticeship programs. Because of these two conditions, German labor market policy -- especially its adult training program -- focused on continually upgrading the skills of already well-trained workers. It focused less on measures to combat unemployment or create or stimulate new jobs.

The institutions that carry out labor market policy developed within the political constraints of the post-war period. Germany's labor market institutions are highly decentralized, a reaction to the centralized authoritarianism of the Nazi period. Today there is a Federal Employment Institute (FEI), which runs both the unemployment insurance program and selective employment programs, and is funded through payroll taxes. But the Institute is separate from the main German government agencies and, in fact, is run by a tripartite board of public, industry, and labor leaders. Its funding mechanism is a product of the growth years. The payroll taxes generate a fixed amount of money; when unemployment and unemployment benefits rise, the FEI has less money to pay for other programs. Moreover, the Institute itself operates few programs beyond unemployment insurance. Most adult training schools, for instance, are run either by the states (Lander) or private groups, especially chambers of commerce and unions. Qualified trainees receive FEI vouchers which they use at these schools. This German model increases local flexibility and control, but also makes it harder for the FEI to shift resources rapidly when labor market conditions change.

The emphasis on continuing training and on organizational decentralization has affected Germany's ability to respond to the high unemployment that first struck the country in the late 1970s. A system that focuses primarily on additional training for already skilled adults has had trouble adjusting to an era of permanent layoffs and high youth unemployment. German policy now devotes more attention to retraining workers and to creating or maintaining some jobs but "continuing training"

still is the largest program. Nor has the program ever had enough financial resources to pay for large scale public works projects. The government has responded to youth unemployment primarily by expanding the general apprenticeship program, rather than shifting selective labor policies toward the needs of the young.

Unemployment remains high in West Germany, currently at 9.3 percent. (*Economist*, 1985: 107). However, one should not place much of the blame on labor market policies. Germany's main problem is a lack of new jobs, not a poor match between people and existing jobs. The solution to Germany's employment problems lies not in tinkering with FEI programs but rather in using other policies -- particularly macroeconomic and industrial policies -- to create new and permanent private sector jobs.

Labor Market Policy

Government policies designed to deal with employment problems and improve the contribution of the labor market to national competitiveness are generally called "labor market policies."

Prior to the 1960s, Western governments used three kinds of general or macro policies to influence employment and unemployment: (i) macroeconomic policy, (ii) social welfare policies such as education and unemployment insurance, and (iii) economic development policies. But by the 1960s, governments also wanted policies that would address particular labor market problems, including both the unemployment problems of specific groups, industries, and regions and periodic labor shortages in some sectors and regions. Governments in Europe and North America began to think in terms of a more active labor market policy that would use selective measures (as opposed to just "macro" measures) to deal with

these particular problems.

A role model already existed: Sweden's selective labor market policy. After World War II, the Swedes adopted Keynesian measures to ensure high growth and employment. By the 1950s, however, they were aware that a full-employment economy could lead to serious inflation, particularly as wages went up for limited numbers of workers in key skill areas. They were also aware that pockets of unemployment could survive even in a strong economy. An alternative, "post-Keynesian" approach was developed in the early 1950s by economists Gosta Rehn and Rudolph Meidner. Their model became the intellectual basis for the selective labor market policies that much of Europe, including West Germany, adopted in the 1960s.

Their model assumes that it is neither desirable nor possible to eliminate unemployment through traditional Keynesian economic policy. It calls for *selective* measures to get at both labor bottlenecks and pockets of unemployment. The result is an *active* labor market policy that emphasizes both targeted job creation -- especially during times of recession -- and labor supply programs that make it easier for workers to leave regions and occupations with high unemployment for places and occupations where there are jobs. (Ginsburg, 1983: 111-118).

As adopted in the 1960s, these active labor market policies thus centered on three objectives: (i) to develop human resources and adjust manpower resources to structural changes with a view toward fostering economic growth, (ii) to improve the employment opportunities of marginal groups and regions and thus contribute to social equity, and (iii) to improve the tradeoff between inflation and unemployment by stabilizing employment during cyclical downturns and removing labor market bottlenecks during periods of growth.

Three groups of policies were -- and are -- used to meet these goals.

- *Labor Supply.* Policies here influence both the skills of the labor force and its size. Adult training and retraining and relocation assistance help match skills to industry's needs. Policies increasing the size of the labor force during labor shortages include advanced training in critical skill areas and admission of foreign workers (as in Europe's "guest worker" programs of the 1960s). Policies to help workers laid off from particular sectors include retraining and relocation assistance. Policies to reduce the active labor force during times of high unemployment include early retirement, worksharing, and delaying the entry of youth into the work force (usually by lengthening school or training).

- *Employment Services.* These are policies and programs to improve the job placement process. They include placement services for young people entering the work force, for older workers in plants that are closing, and for those who are laid off.

- *Selective Measures to Create or Maintain Jobs.* Government job creation can involve either traditional public works jobs or subsidies to specific industries to encourage them to hire more workers. Wage subsidies also can be used to encourage companies not to lay off workers. This last objective also can be met through "industrial policies" such as trade protection or government corporate subsidies.

Sweden had developed the most extensive -- and expansive -- system of selective labor market programs. The size and price of West Germany's system falls somewhere between that of Sweden's and a more market-oriented system such as Canada's. In 1978, for instance, Swedish expenditures for labor market programs (including job maintenance subsidies) were 2.41 percent of gross national product. Germany's, while considerable, were 0.50 percent of GNP. (Johannesson and Schmid, 1980:401).

German Labor Market Policy

Economics

West Germany's population of 61,543,000 includes West Berlin. Its population growth rate is 0.2 percent. The work force totals about 26,722,000. In 1980, 35.6 percent of this work force was in manufacturing, a high number compared with the United States (24 percent). Other major employment groups in 1980 were: 30.4 percent services, 14.3 percent government, 7.7 percent construction, 5.7 percent agriculture, 3.0 percent other. In 1981, 34.6 percent of the total labor force was organized in unions. (CIA, 1983b: 80)

Germany's present labor market policy is rooted in the economic and political history of the Federal Republic, a history shaped by both early 20th century events and the legacy of World War II.

The war and its aftermath had a significant impact on the country. In addition to deaths in the Jewish community, three-and-a-half million other Germans died in the Second World War, almost all of them working-age men. However, most of Germany's industrial plants were intact at the end of the war, although the cities and the transportation systems were devastated. With Marshall Plan rebuilding funds plus economic reforms that put the country on a firm financial footing, the German "economic miracle" began. A reduced population combined with economic growth led to serious shortages of skilled workers.

From the late fifties until 1967, rates of investment in the Federal Republic continued to be high. The main concern of labor market policy was to find enough workers. Before the construction of the Berlin wall in 1961, the primary source of new labor to meet this high demand was the flow of refugees (14 million of them) from East Germany. After 1961, "guest workers" were brought in from southern Europe to augment the

domestic labor force. (Hanf, et al., 1978: 320; Smith, 1983: 135)

Early Policies

Economically, Germany was to remain a capitalist country. Economic policy was aimed at promoting growth and keeping inflation low. In addition, the new leaders set a goal of rebuilding an industrialized Germany, one technologically advanced and heavily involved in world trade.

Bitter divisions between union members and others contributed to the political polarization of the early 1930s. Both the Basic Law of 1949, which created a new parliamentary democracy in the three western zones and the new government guaranteed the rights of labor, promoted social welfare programs, and promoted cooperation among government, business, and labor.

The role of the central government in the economy and society was deliberately limited. Bitter memories of the Nazis' attempt to take over all social institutions, combined with capitalist philosophy and Germany's tradition of federalism between central government and Lander (states), supported this decision. Germans believed that the federal government should not directly run schools or most other social institutions.

As a result of this situation and philosophy, Germany did not have a very active labor market policy in the early postwar years. Prior to 1969, the country's policy stressed unemployment insurance, job placement, and vocational guidance. (Hanf, et al., 1978: 320) Germany continued its strong tradition of good vocational education for the young. But with unemployment so low, there seemed little need for "selective measures."

During this period, West Germany also had an extensive adult training program, most of it privately funded as well as privately administered. It emphasized upgrading the skills of employed workers, both to help individual job mobility and to

upgrade the skills of the work force as a whole. There were (and still are) three main kinds of adult training: (1) "further training" to upgrade skills in one's existing occupation, (2) "retraining" for those who want to move into new occupations, and (3) "on-the-job training" to help workers achieve full efficiency in their present jobs. Workers who did not have private funding and who lived in areas of social need were eligible for government support. The government did not operate its own training centers.

The Shift to Activism

In the late 1960s, German economic policy and labor market policy became more activist. The recession of 1967-68 surprised many Germans, and the Social Democrats pushed for new measures. There were three main policy developments during this period.

First, orthodox fiscal policy was replaced by more activist Keynesian demand management. Fiscal policy was used for stabilization and counter-cyclical intervention. This view was codified in the 1967 Act to Promote Economic Stability and Growth. (Smith, 1983: 75) The Act established the idea of using government policy – in this case, macroeconomic policy -- to reduce unemployment during downturns.

Second, the Act also introduced so-called "concerted action," which initially proved to be a successful means for reducing wage inflation. German income policy rested on formal tripartite consultation among government, business, and labor. (Smith: 75; also see Hancock, 1983b)

Third was the passage of the Employment Promotion Act of 1969, which created an active and selective labor market policy in the Federal Republic. While the Economic Stability and Growth Act was demand-oriented, the Employment Act dealt with the supply of labor. It rested on the notion that persistent sectoral and regional employment problems could

not be resolved by macroeconomic policy alone. The Federal Employment Institute was made responsible for implementing the Act.

One FEI duty under the Act is the promotion of vocational training and "vocational mobility" working through existing, privately-run adult training programs. No Swedish-style government training centers were created. The government intervened in the economy selectively and supplied funds to correct the "shortcomings" of the private market.

By this time, the Institute also administered a range of other programs that deal with employment problems, including vocational counseling, work counseling, and placement; labor market research and analysis; preparatory measures for taking up an occupation; promotion of regional mobility; incentives to enter employment; financial benefits in case of temporary loss of work (the short-time allowance); promotion of winter-time construction; job-creation measures; and programs for regions having particular employment problems. (Leve, 1981: ii)

As late as 1973, German labor market policy was based on projection of a continuing, long-term labor shortage. However, beginning in 1974, the Germans had to confront persistently high structural *and* cyclical unemployment. Since then, the emphasis has been on dealing with both.

The Growth of Unemployment

Several factors have contributed to growing unemployment. One is the continuing recession in Europe. Second, West Germany also has a large "baby boom" generation, born in the late 1950s and 1960s, that began to enter the labor force in the late 1970s. Third, Germany has concentrated on steel, shipbuilding, automobiles and basic consumer electronics. As foreign competition in these sectors has grown, job losses and dislocation in Germany have increased. Fourth, the German economy has not produced many new industrial jobs recently;

for instance, Germany has few high-technology firms. The reasons are complex, but apparently stem largely from corporate attitudes and from the nature of the German banking system. Traditional companies have generally been unwilling or unable to enter new fields successfully. Moreover, the banks tend to be very conservative. Since they dominate the country's financial markets, venture capital is almost unknown in Germany. Only the state of Baden-Wurttemberg, the Stuttgart area, now has new industries and substantial economic growth.

These four factors have led to persistent and record high unemployment in Germany. Several groups have encountered particular difficulty. They include the severely handicapped, whose percentage share of total unemployment increased from 2.7 percent (1975) to 8.2 percent (1980); older people, whose average duration of unemployment is double the national average; women in general, especially young and unskilled blue-collar women and women seeking part-time work; and, in general, unskilled and semi-skilled workers who amount to almost two-thirds of the unemployed but make up one-third of the total labor force. Youth employment has remained a potential problem. (Schmid, 1981; 6)

In early 1984, West Germany's unemployment rate was 9.1 percent. The country had 2.3 million people unemployed and only 100,000 job openings. As mentioned earlier, the current unemployment rate is 9.4 percent.

Labor Market Policy in an Era of High Unemployment

Germany's labor market policy has gone through two principal phases as it tried to respond to growing unemployment.

The first phase lasted approximately from 1973 through 1980. The emphasis here was to reduce the supply of labor while trying to protect "core" industrial workers (skilled union workers). See especially Sengenberger, 1984; 329,

and Webber and Nass, 1984: passim)

This first phase began in 1973, when the government banned new "guest workers" from outside the European Community and made it harder for those already in Germany to stay. This cut the number of guest workers by 700,000 between 1973 and 1977. In addition, neither the government nor the unions encouraged further increases in female participation, for instance, less top-notch training was available to them. Early retirement was used extensively to reduce the participation of older workers. The combined effect of all three measures of supply restraints was a reduction in the total labor force of about 1.7 million workers from 1973 to 1977. (Schmid, 1981: 3)

In 1975 the adult training program was reoriented to put more emphasis on the unemployed. The intention was to shift the emphasis to support mainly unemployed people, or people without any training, rather than simply to provide "further training" to skilled workers. A distinction was made between "necessary" and "expedient" training. The emphasis is now on those for whom training is "necessary" – people who are unemployed, immediately threatened by unemployment, or who have no prospects of being employed. As expected, fewer workers used the system for upward mobility. However, the unemployed and other problem groups did not enroll in expected numbers. The number of people entering adult training programs (further training, retraining, on-the-job training) fell sharply for several years. (Johannesson and Schmid, 1980: 39)

Job creation programs were also widely used by the Federal Employment Institute during the middle and late 1970s. Five major programs were used: (1) wage subsidies (the "settling-in" allowance or Eingliederungsbeihilfe), which in the FEI provides up to 80 percent of wage costs to the company for six to twelve months if they hire hard-to-place or unemployed people; (2) general work creation measures (Arbeitsbeschaffungsmassnahmen) that pay up to an 80 percent wage subsidy to

sponsors doing public service work (similar to CETA in the U.S.); (3) various programs for the disabled; (4) the "short-time allowance" (Kurtzbarbeitergeld) and analogous construction-industry grants provided to workers put on reduced work weeks during cyclical downturns; and (5) the large "Special Employment Program" introduced in 1979 to help regions with special employment problems. (Schmid, 1981:8-14)

This last program had a large -- and successful -- training component. Subsidies of up to 90 percent were provided for employees participating in additional in-plant training in firms facing serious problems adjusting to economic and technological changes. The program had two main objectives: (1) prevent skilled-labor bottlenecks and (2) prevent dismissals because of skill deficiencies. The "take-up" was astonishingly high, and small and medium sized firms in particular seem to have used the program for additional training and stabilization of their work force. (Ibid.: 8)

These various programs during the 1973-1980 period reflected the policy of Social Democratic governments to protect skilled union workers. And, in general, they succeeded. Firms reduced their work forces by phasing out unskilled, low-performance, and older workers. If skilled workers lost their jobs at all -- for instance, through plant closings -- they stood a good chance of being re-employed quickly. At the same time, government policies (including further training and retraining) continued to help skilled workers. (Sengenberger, 1984: 329)

By 1980, however, a second phase had begun. The Social Democrats and their Free Democrat (Liberal) allies still governed. But as a new world recession developed, unemployment grew and the Bonn government faced a stark choice: help the growing ranks of unemployed, but at the cost of large government expenditures, or maintain tight fiscal and monetary policies. Partly because of the growing conservativism of the Free Democrats, the Schmidt government chose the latter policy. (Webber and Nass, 1984: 181-187)

The government chose *not* to support the Federal Employment Institute, already in deficit because of growing unemployment benefits, with large direct government assistance. The Social Democrats did ensure that further training and retraining continued, but eligibility requirements and allowances were tightened. The gradual abandonment of an active labor market policy in 1981 and 1982 coincided with a renewed and very steep rise in unemployment. (Ibid.: 180)

In late 1982, the Free Democrats broke with the Social Democrats and formed their coalition with the more conservative Christian Democrats. Helmut Kohl became Chancellor of Germany. Kohl continued the fiscally conservative policies of the late Schmidt era and, in addition, advanced new ideological reasons for not supporting expanded government policies to insulate workers from unemployment. (Sengenberger, 1984: 328)

As a result, the conservative government has downplayed labor market policy. It does not believe, as did the Social Democrats, that workers (especially union workers) deserve high-paying jobs or, in the event of layoff, generous retraining benefits. The Kohl government favors not just budgetary restraint but leaving workers more to the dictates of the market.

Because of recession and more restrictive government policies, unemployment in Germany has continued to worsen in the past few years. In December 1983, 2.35 million West Germans were out of work, 9.5 percent of the labor force of 25 million. There are fewer than 100,000 vacancies.

Under these circumstances, many of the unions -- particularly those in traditional sectors such as steel -- have begun to push for "work-sharing policies," particularly a 35-hour workweek. Whether reducing the workweek will result in more employment is hotly debated within the country. The present Christian Democratic labor minister recently tried to head off the 35-hour week by producing a plan of his own for more voluntary early retirement. Industry, for its part, would rather

not be tied to a mandatory general reduction in hours, preferring to explore ways of making hours more flexible. (*Economist*, 1984: 14-15)

In the spring of 1984, the metalworkers union, I.G. Metal, struck the steel industry over the 35-hour week. After a long strike, the union settled for a 38.5 hour workweek. That settlement took effect on April 1, 1985. Debate continues over the effect of the reduced workweek on job creation. The Federal Employment Institute estimates that the shorter workweek will create between 70,000 and 80,000 jobs in the industry. Employers argue that the new rules will simply lead them toward more "rationalization" (machinery replacing workers). (*Wall Street Journal*, 1985)

However, the Kohl government has not abandoned the "safety net." While eligibility requirements have been tightened, labor market programs such as adult training continue. Moreover, Kohl has tried to increase the number of apprenticeships in order to provide work to unemployed youths.

The Kohl government has also fought unemployment using methods that have little to do with the free market. Large job-saving subsidies continue to be paid to the steel, coal, and shipbuilding industries despite earlier pledges to abolish them. In both steel and shipbuilding the government proposed mergers as well as providing cash, an example of "industrial policy" to help companies that employ many people. In addition, job-creation measures in the public sector will employ over 70,000 people this year, compared with only 29,000 in 1982. Over 180,000 people will attend government-sponsored training courses. Business has increased the number of apprenticeships from 630,000 in 1982 to 720,000 in 1983, a move that has done much to keep Germany's youth unemployment relatively low. In reviewing these measures, *The Economist* (1984: 20) summarized the German view:

> All of this may not fit in with the official economic philosophy, but it does not cost a lot more than keeping people on the dole. Of course, it would be nice to see jobs boosted by a dose of good old-fashioned growth, or be able to galvanize industry into creating new employment in industries of the future. But meanwhile something has to be done to make the figures less atrocious.

Adult training in Germany now has a counter-cyclical role, as in Sweden. One FEI official stated: "Quite generally speaking and in particular during periods of unemployment, it is recommended to the unemployed that they should take advantage and make good use of the period of unemployment for the purpose of obtaining a better vocational qualification." (Leve, 1981: 14)

There is one piece of good news in Germany's otherwise grim situation. From a peak of 1.08 million in 1980, the number of German youths turning 16 years old in a given year will fall for the rest of the decade to only 630,000 in 1990. As in the United States, demographics alone will do much to reduce the youth unemployment problem. (*Economist,* 1984: 23)

Germany's Labor Market Programs

In this section we examine the specific programs and institutions of German labor market policy. Since German policy has emphasized upgrading worker skills and matching them to industrial needs, the focus here is on adult training and retraining programs. Some attention is also given to other programs, such as measures to reduce the active work force, improve job placement services, or selective measures to create or maintain jobs.

Administration and Funding

In 1927, a German law created the National Office for Placement and Unemployment Insurance, a self-governing body administering placement services and compulsory unemployment insurance. It also took over public vocational guidance and the placement of apprentices. The Nazis abolished its self-administrative status, but in 1952 it was reconstituted as the Federal Office for Placement and Unemployment Insurance, an independent federal agency governed by representatives from employers, employees, and public bodies. The Act also changed the agency's name to "Bundesanstalt fur Arbeit," sometimes translated as Federal Labor Office but usually rendered as Federal Employment Institute (FEI). The 1969 Employment Promotion Act gave it new responsibilities to provide a quantitative and qualitative equilibrium in the supply and demand of labor. (FEI, 1982: 8-11) The following description of the FEI and its mission is taken primarily from Schmid (1981: 3-6)

Under the 1969 law, the FEI can use the same kind of labor market policy tools used in Sweden and other European countries, including (as we have seen) labor training and retraining, job creation, and subsidized employment. There are some important differences, however. Unlike Sweden or Britain, Germany does not separate the unemployment compensation system from labor market programs. Both are financed from the unemployed insurance fund in which employers and employees pay equal contributions (together, they pay 4 percent of the payroll). When unemployment increases, so do unemployment benefits, while unemployment insurance contributions decrease. Funding for active labor market measures declines if overspending occurs. When this happens the federal government is obliged to resort to grants from the treasury to FEI, but in general this is not designed for prolonged economic downturns.

Since the early 1950s, the FEI also has received non-federal outside funds to help pay for training workers in troubled sectors. These funds come from the European Social Funds of both the European Coal and Steel Community, a unit of the European Community, and the EEC itself. These "readaptation" funds are used to help dislocated workers. The funds from the Coal and Steel Community are used for training and retraining for German coal and steel workers; funds also go to other EEC countries. This money is raised from a levy on each ton of steel produced in the European Community. The EEC funds are used primarily to help people in agriculture and textiles. By the early 1980s, almost one-fourth of all workers receiving adult training in Germany were partially or completely subsidized by the European funds.

Under the 1952 law, representatives of trade unions, employers, and government directly influence FEI policy at all levels: central, regional, and local. The FEI is divided into nine regional employment offices, 146 local employment offices, and 501 branch offices.

Only the FEI is authorized to provide placement services; there are no private placement offices.

As a result of its diverse functions, the FEI is a powerful, well-organized, and highly visible institution in Germany. It has well-established contacts with employers. However, the fact that it pays for both unemployment benefits and selective labor market measures from the same fund appears to limit its ability to counteract cyclical unemployment.

The 1983 budget of the Federal Employment Institute was about $15 billion, $8.6 billion of which was spent on unemployment benefits. Another $2.5 billion was spent for vocational training and retraining, new "adaptation" grants to hire employees earlier, and various other incentives to hire workers. Approximately $519 million was spent for job-creation measures and $875 million for short-time allowances. (Meisel, 1983: 12)

Programs for Initial Training and Retraining

The need for adult training is affected by Germany's strong apprenticeship system, which provides good basic vocational skills to young people. In recent years, it has been expanded in order to reduce youth unemployment.

It is called "the dual system" because it is a mixture of on-the-job training and conventional school learning. It now takes in about 90 percent of all 16-year-old secondary stage school leavers, i.e., just about all of those students not bound for university. All school leavers must be in a program until 18 years of age, so those who do not get apprenticeships attend vocational schools full-time. Apprentices themselves are usually paid by the employer at a rate of Deutsche Mark 520 a month, rising to DM 720 in their third year; this is low compared with the average German pay of DM 2,850 per month. In some cases of hard-to-place youth, the FEI subsidizes companies. Typically an apprentice spends one or two days a week at a vocational school and the remainder with the employer with whom he or she has a contract. Three or four years after starting, they emerge as fully-qualified car mechanics, hair dressers, office assistants, or members of the 450 other occupations in which formal training is offered. (Schmid, 1981:7; *Economist*, 1984: 20-21)

In the past, apprentices usually were kept by the employers who trained them; if they did not stay, the skills that had been learned would give them a good chance of finding a job elsewhere. During the 1981-1984 recession, however, companies were not necessarily offering their trainees permanent jobs. Two out of five youngsters leave their firm when their training period is up. Many have trouble finding other jobs. (*Economist*, 1984: 20) Some observers speculate that companies take on apprentices they will not keep because these people work for less than the prevailing wage. They are, in effect, inexpensive labor. (Daley, 1983)

However, the main point for our purposes here is that a large number of young German workers have received solid vocational training through the "dual system." It is usually considered to be the best vocational training program in Western Europe. In general, its success makes the tasks of adult training and retraining easier.

Adult Training and Retraining

Adult training is provided through a very diverse group of semi-autonomous training institutions. The following descriptions are drawn from Hanf, et al. (1978: 321-331)

Many major German economic institutions have offered adult training and retraining programs for years, usually before the FEI began to support training actively. Half or more of all the students in adult training are still supported privately. The training system still reflects its original purpose: helping industry by upgrading worker skills. Often this means teaching the advanced skills necessary to pass state examinations to become a journeyman, master, or technician. The major economic organizations offering courses include the Chambers of Commerce and Industry (IHK), the crafts associations (HWK), the blue-collar unions (DGB), and the white-collar unions (DAG). There are also courses offered by the school system and a large number of smaller providers. The smaller providers often give training in one or two occupations and may not be closely tied to FEI programs.

Labor training in the Federal Republic is formally divided into three program areas: (1) further training, (2) retraining, and (3) on-the-job training. During the 1970s and 1980s, more than three-quarters of all trainees (both government-supported and otherwise) have begun courses of "further training" (Fortbildung), also known as "advanced training." The main objectives are (1) to train for advancement within an occupation, or (2) to update skills in an existing occupation without advancement. Many of

the trainees wishing to advance aim at passing the state examinations for masters or technician's certification. In recent years, the FEI has put more emphasis on programs which update and improve skills at a given occupational level, often in order to upgrade workers who would otherwise risk obsolescence and unemployment.

Less than 15 percent of enrollees in adult training since 1970 entered "retraining measures" (Umschulung). These measures help trainees prepare for a new occupation. Women represent a significantly larger proportion of those starting retraining programs than those in further training. Over half the retraining courses lasted more than one year. About one-fourth of the further training courses last a year or more. About 20 percent of the further training courses continued for 18 months; one-third of the retraining courses exceeded 18 months.

The duration of the third group of measures -- "on-the-job training" (Einarbeitungszuschusse) -- is shorter. More than 90 percent of these measures are completed with six months. On-the-job training included less than 10 percent of all the people who received FEI support since 1970. Subsidies are paid directly to employers who agree to provide vocational training to employees in order to achieve full efficiency in present jobs. Like further training, on-the-job training upgrades skills and improves productivity.

Eligibility for FEI support is not tied directly to unemployment or the threat of unemployment. Originally, the policy was aimed at removing barriers to occupational mobility resulting from a mismatch of skills and requirements, rather than at alleviating unemployment. Most people who applied for help got it, as long as they were enrolling in approved courses and had not received private assistance. Until 1974, only four to seven percent of individuals entering training programs were unemployed when they entered. This changed in 1974 when German unemployment rose. Since then, more entrants have been unemployed or, in the opinion of local FEI offices, in

danger of unemployment.

Local employment offices must wait until an individual approaches the office, seeking employment or training, before counseling can begin. The local employment office decides whether or not to offer training, and the individual decides whether or not to accept training. As in Sweden, a person seeking help receives a great deal of individual attention and counseling.

The local office may also decide if FEI support will be given to participants in particular courses. In judging a course, the local office considers its relevance and appropriateness to local market conditions. Training courses supported by the main interest groups of a region are almost always approved. The FEI operates very few courses of its own.

The FEI and its local offices support training in three ways: (1) vouchers, (2) commissioning special courses, and (3) grants to training centers. "Vouchers" are provided to pay for training in approved courses. They also give the trainee a living stipend, often at the rate of unemployment benefits, and possibly a moving allowance. Special courses are commissioned when there are occupational shortages or when special groups in a region need training (such as the long-term unemployed, unskilled women, or youth). In a very few cases, "institutional grants" are given directly to training centers when there is a need to increase training capacity in the community.

Neither course providers nor the chambers of commerce are officially able to assist trainees in finding jobs. Trainees who have difficulties finding jobs return to the placement division of the local FEI office for assistance.

Recipients of Training Programs

Every year about three percent of the labor force receives some form of adult vocational training. According to one FEI official, approximately one-third of those who take further

training are subsidized by the Federal Employment Act under the provisions of the Employment Promotion Act. (Leve, 1981: 14) The percentage of those undergoing retraining or on-the-job training who receive government help probably is higher, but precise figures are unavailable.

There are no detailed statistics on who received privately-funded adult training. Evidence suggests that these trainees are overwhelmingly male, skilled, and in the 20-45 age bracket. (Daley, 1983)

Detailed tables and figures based on data from the Federal Employment Institute Bundesanstalt fur Arbeit on FEI-supported training and retraining follow:

Table 1 gives information on the number of FEI-supported trainees in further training, retraining, and on-the-job training. Before 1974, 10 percent or less of the participants had been unemployed prior to entry. After 1974, the percentage was 20 percent or more. At present, 38.7 percent of the government-funded entrants are unemployed.

Figures 1 and 2 provide details on entrants to adult training programs from 1970 to 1982. Figure 2 shows that even today women constitute only 30 percent of those receiving training.

Table 2 provides additional details on the characteristics of FEI-supported persons entering labor market training. The key point is that most training still goes to white collar and skilled workers, even in the 1980s.

Table 3 shows applications for adult training, as well as the number accepted and rejected. "Total accepted" and "total rejected" in a given year does not equal "total applications" because an application filed one year may not be processed until the following year.

Table 4 gives data on which age groups receive training. The bulk of the training goes to the young, not to older workers.

Table 5 is a breakdown of FEI expenditures for further training, retraining, and on-the-job training. (In this Table, on-

Table 1. Enrollment in Professional Training Programs By Type of Program 1970-1982[1]

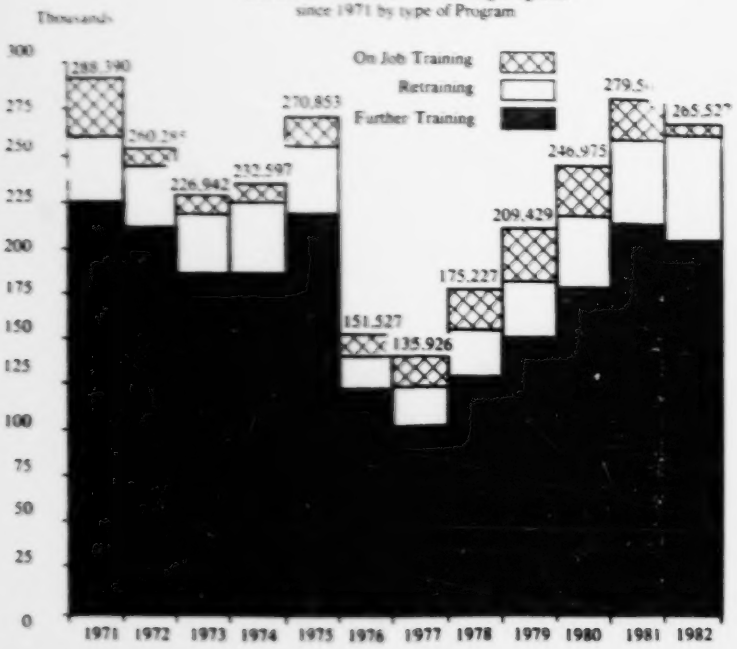
Year	Total	Unemployed at Entrance		Further Training		Retraining		On-the-Job Training	
	number	number	%	number	%	number	%	number	%
1970	99.132	—	—	76.537	77.2	16.938	17.1	5.657	5.7
1971	162.333	6.918	4.3	129.806	80.0	28.904	17.8	3.623	2.2
1972	177.043	6.996	4.0	141.895	80.1	33.096	18.7	2.052	1.2
1973	181.572	7.507	4.1	145.580	80.2	34.456	19.0	1.536	0.8
1974	189.056	19.828	10.5	149.467	79.1	37.507	19.8	2.082	1.1
1975	191.499	38.471	20.1	150.102	78.4	37.762	19.7	3.635	1.9
1976	125.450	29.808	23.8	96.769	77.1	25.350	20.2	3.301	2.6
1977	109.376	33.318	30.5	82.421	75.4	22.413	20.5	4.542	4.2
1978	128.100	42.701	33.3	95.618	74.6	25.858	20.2	6.624	5.2
1979	152.301	49.152	32.3	110.974	72.9	31.418	20.6	9.909	6.5
1980	177.108	54.500	30.8	126.758	71.5	39.974	22.6	10.376	5.9
1981	198.739	65.549	33.0	144.083	72.5	51.591	26.0	3.065	1.5
1982	201.505	77.989	38.7	146.248	72.6	51.354	25.5	3.903	1.9

[1] as of December 31 of each year

Source: Federal Republic of Germany, Bundesanstalt fur Arbeit, statistics, 1983.

Figure 1

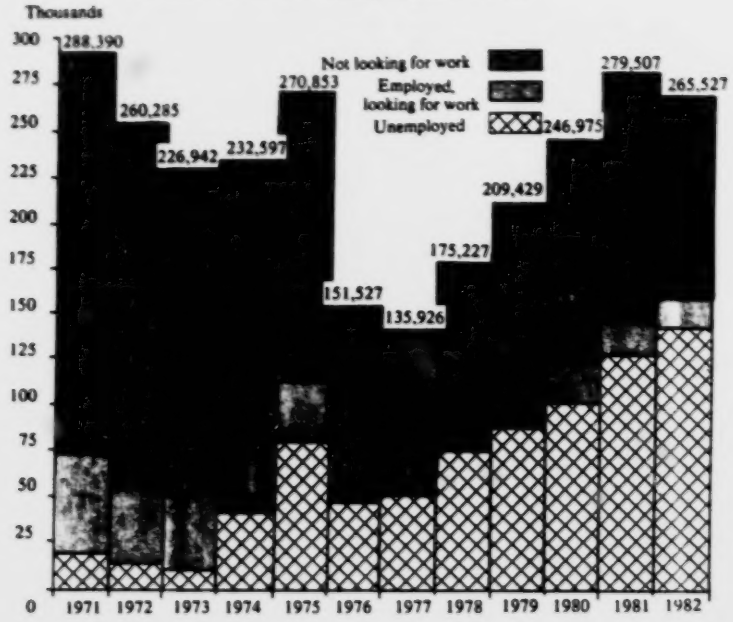
Entrants into Professional Training Programs since 1971 by type of Program



Source: Federal Republic of Germany, Bundesanstalt fur Arbeit, statistics, 1983.

Figure 2

Entrants into Professional Training Programs since 1971



Source: Federal Republic of Germany, Bundesanstalt fur Arbeit, statistics, 1983.

Table 2. Previous Employment of Program Entrants - 1982

Last employed as	Total	%	Further Training	Retraining	On-Job Training
			Men and Women		
Self-employed	616	0.3	346	195	75
Helper or Assistant	429	0.2	263	139	27
White collar	99,576	41.1	81,811	13,798	3,967
Skilled worker	71,986	29.7	66,549	2,618	2,819
Unskilled worker	64,527	26.6	36,962	23,588	3,977
Other	1,919	0.8	1,199	369	351
Unemployed for 6 years	2,082	0.9	1,050	842	190
Never gainfully employed	1,068	0.4	424	554	90
Total	242,203	100	188,604	42,103	11,496
			Women		
Self-employed	167	0.2	102	48	17
Helper or Assistant	173	0.2	111	56	6
White collar	54,445	72.6	43,513	9,083	1,849
Skilled Worker	5,252	7.0	4,303	600	349
Unskilled worker	11,745	15.6	5,762	4,891	1,092
Other	1,033	1.4	706	165	162
Unemployed for 6 years	1,730	2.3	867	723	140
Never gainfully employed	529	0.7	200	289	40
Total	75,074	100	55,564	15,855	3,655

Source: Federal Republic of Germany, Bundesanstalt fur Arbeit, statistics, 1983

the-job training is also referred to as "internships.") Training expenditures dropped between 1975 and 1978. This drop was due to (1) the 1974 decision to shift program emphasis to the unemployed, and (2) the fact that fewer unemployed people than expected signed up for training. Also, FEI funds were limited in these years, due to the growth of unemployment benefits during this period. Recently expenditures for training

have risen sharply, partly because the payroll tax was raised from three to four percent in 1981, increasing the FEI budget.

Only about five percent of the FEI-supported training occurs in FEI institutions. About one-fifth occurs in public schools, a little over one-tenth in union-run facilities and most of the remainder in special institutes run by employer groups.

As in privately-funded training, most FEI-supported adult training goes to skilled male workers under 35. Only about 30 percent of all entrants are female. Another group that receives little training is workers 45 and over. With so few job vacancies in Germany, the government apparently prefers to encourage

Table 3. Applications for Adult Training[1]
1970-1981

Year	Total Applications	Female Applications	Total Accepted	Total Rejected
1970	263,588	58,008	181,500	13,842
1971	360,391	79,635	337,387	35,325
1972	288,713	58,577	274,186	30,218
1973	276,908	58,416	245,977	25,918
1974	284,614	72,168	247,551	21,131
1975	311,833	78,272	286,416	22,999
1976	189,864	50,898	172,658	27,661
1977	202,757	60,393	171,496	18,580
1978	240,477	75,559	208,012	16,871
1979	278,849	91,707	237,193	18,455
1980	314,639	102,889	268,554	21,255
1981	322,128	104,446	284,833	21,055

[1] including German course according to the Language Promotion Decree (since 1979)
Note: Acceptances and rejections for a given year do not necessarily equal number of applicants because decisions are not necessarily made in the year of application
Source: Federal Republic of Germany, Bundesanstalt fur Arbeit, *Forderung er beruflichen Bildung: Ergenbnisse der Teilnehrmerstatistik uber berulfiche Forbildung, Umschulung und Einarbeitung von 1981.* Nuremberg, January 1983.

Table 4. Age Distribution of Trainees Compared to Age Distribution of Employed Labor Force

Age Group	Age of Employed Labor Force, 1979		Age of Trainees 1974-79
	Total (000s)	%	%
under 25	3388.00	15.45	17.68
25-35	4917.24	22.42	29.76
35-45	6145.83	28.03	0.78
45-55	4937.50	22.57	16.49
over 55	2540.00	11.58	5.30
	21,928.57	100.5	100.01

Totals do not necessarily equal 100 due to rounding

Source: Hans Hofbauer, "Untersuchungen des IAB uber die Wirkeamkeit der beruflichen Weiterbildung," *Mitteilungen aus der Arbeitsmarkt und Berufsforschung*, 3, 1981, table 2, p 247

early retirement rather than retrain the middle-aged.

Adult training is not the entire picture. Wage subsidies and job-creation schemes also are used to preserve jobs and reduce unemployment. Statistics on which groups of workers are in these programs are unavailable.

Completion Rates and Placement

Training completion rates are high -- even though many of the participants were unemployed when they entered the program. Of those who start FEI-supported further training, 18 percent drop out before completion. It may be that the local FEI offices tend to pick people whom they think are "good bets" and likely to complete their educational deficiencies -- those who did not graduate from primary school, those who did not complete their vocational training, unskilled workers, and

Table 5. Expenditures for Further Training and Retraining
1974-1981 (In Million DM)

	1974	1975	1976	1977	1978	1979	1980	1981
Support allowances	1494.2	1991.4	1426.7	771.0	744.0	1179.8	1497.8	2120.5
Other expenditures[1]	334.5	491.9	405.2	334.3	427.1	575.0	752.1	988.6
Internship allowances	17.7	40.8	42.6	51.6	76.5	120.3	186.1	161.1
Total	1846.5[2]	2524.1	1874.5	1156.9	1269.6	1875.1	2436.1[2]	3270.3[2]
Grants to training institutions	71.0	63.6	43.4	31.0	22.3	28.7	46.5	35.5
Total	1917.5[2]	2587.7	1917.9	1187.9	1291.9	1903.8	2482.6	3305.7[2]

[1] Instructional fees, costs for learning materials, costs for work clothing, costs for lodging and food, health accident insurance, and other costs

[2] Difference due to rounding of numbers

Source: Bundesanstalt fur Arbeit, *Forderung der beruflichen Bildung: Ergebnisse der Teilnehrmer statistik uber berulfiche Fortbildung, Umschulung und Einarbeitung von 1981, Nuremberg, 1983.*

those who were trained solely on the job. (Leve, 1981: 15)

Placement levels were good in 1980. One study found that while 60 percent of those who entered further training between July 1979 and September 1980 were unemployed at entry, only seven percent of those who finished (12 percent of those who had entered unemployed) were unemployed after the courses. (Ibid.)

The research division of the Federal Employment Institute argues that short-time allowances, job creation measures, and full-time vocational training and retraining measures have had a considerable effect on unemployment. For instance, in 1983, out of a total of 931,000 persons involved, short-time work was estimated to have increased employment by 255,000 and decreased unemployment about 179,000. Job creation measures were estimated to have increased employment by 85,000 and reduced unemployment 75,000. Full-time vocational education was estimated at the equivalent of 125,000 jobs and a reduction in unemployment of 109,000. (Meisel, 119)

German Policies for Dealing with Industrial Dislocation

This section briefly reviews how labor market programs, as well as other government programs, apply to plant closings and possible layoffs.

In total, three sets of policies are aimed at minimizing economic disruptions that threaten severe dislocation. The first, labor market policy (including training) has been discussed. The second, "industrial policies" that provide help to troubled firms, has been briefly covered. The third consists of laws regarding plant closings and proposed layoffs, and is discussed here. This discussion is taken from an AFL-CIO report. (1979: 21-26)

There are two groups of laws. First, employee "work

councils" at the plants and trade unions are given substantial statutory authority to protect workers who may be dislocated. Under Germany's Code Termination Act of 1977, worker representatives sit on corporate boards and have full access to corporate information. The Worker Representative Law requires management to give timely advance notice to works councils of decisions which could adversely affect workers. The company must state reasons for and provide information on proposed cutbacks. All aspects of the decision are subject to negotiation, including the number of people to be dismissed, the timing of the dismissals, and the protection to be made available to dismissed workers.

The resulting written agreement reached between employer and works council is known as a "social plan." It specifies ways to avoid or ease personal economic hardships by minimizing dismissals and providing economic protection to workers who are dismissed. There is no legal requirement that a plan be in place before dismissals begin, but most companies try to develop one.

Second, mass dismissals are regulated by the government. The Protection Against Dismissals Act of 1969 bars the "socially unjustified" dismissal of any worker after the probationary period of six months. The employer is required to notify the regional FEI office prior to mass dismissals. Reasons for the planned dismissals must be stated. The employer is also required to provide a copy of the works council's opinion on the justification for layoffs. The regional FEI office is empowered to delay dismissals for up to two months. In practice, the authorities usually delay dismissals for one month. This time is used to arrange training and other measures for the effected workers.

Evaluation of Germany's Labor Market Policies and Programs

What the Programs Accomplish

German labor market policy does not try to accomplish as much as, say, the very extensive Swedish program. Sweden spends more on selective measures than Germany. Excluding unemployment benefits (A "passive" measure). Sweden historically has spent about five times more on selective measures, in terms of percentage of GNP. Swedish programs have done more than German programs to lower unemployment rates. (Johannesson and Schmid, 1980: 401-403)

Both Sweden and Germany use wage subsidies to preserve existing jobs, and both have some public service employment, although Germany has much less than Sweden. In Germany, however, training and retraining are still used primarily to help improve the life chances of individuals and, with the exception of the apprenticeship program, not primarily to reduce unemployment. In addition, the Germans have been more willing to allow "short-work" and part-time work and more willing to let some people go on unemployment benefits or into early retirement. German labor market policy, together with labor laws and collective agreements favoring skilled workers, tends to lead to "segmentation" of the labor market -- a division into a primary labor market of privileged employees and secondary market of less privileged workers. In Germany, those in the primary labor market have high job security and good career prospects, while those in the secondary market have low job security, high fluctuation between employment and unemployment, and relatively bad job prospects. (Ibid.: 403-404)

Still German training and retraining does allow some upward mobility from the secondary labor market into the primary market, and those who are on unemployment or are

pushed into early retirement (the fate of many workers over 45) receive generous benefits.

Strengths and Weaknesses of the German System

The quality and almost universal reach of the German "dual system" of vocational apprenticeships is one of the country's great strengths. The quality of instruction is high, the emphasis is on matching training to actual job opportunities, and students trained in the dual system find it easier than students in other countries to make the transition into full-time work. Equally important, the system facilitates interoccupational flexibility and mobility. Employers and unions appear to recognize the value of training in helping young people develop basic skills that are transferable among different kinds of work. For example, an apprenticeship in banking is viewed as useful preparation for a career in a variety of different industries because it develops the skills of dealing with people and gathering information. (OCED, 1983e; passim and 50) Good basic training also makes it easier to place German workers if they are dismissed. If retraining is needed, they start with a sound set of basic skills.

There are concerns today about both the motivation of apprentices and how educational reforms may have affected the quality of German apprenticeship training. (*Economist*, 1984: 20) Despite these and other significant shortcomings -- very early decision of career path, failure to provide equal apprenticeship opportunities for women and foreigners, some variety of training quality, and some deficiencies in matching skill demands -- the dual system of apprenticeship is an asset to German employment policy. (Schmid, 1981: 7)

Adult labor training is generally of high quality, largely because many of the centers are run by local chambers of commerce or unions with close ties to local companies.

Several other features also contribute to the program's

success. Strong vocational counseling to the unemployed and living and moving allowances during retraining seem to help a great deal. Strong involvement by national and local employer associations and unions also help. The Germans believe pre-notification of plant closings or dismissals makes it much easier to help those affected by industrial dislocation.

Relying primarily on employers and unions to provide training has drawbacks, however. One is that regional and local employment offices have few formal powers to influence the content and timing of non-commissioned courses (the majority). They must accept the judgments made by the employer organizations and unions about the skills and numbers of workers needed. This can lead to a lack of flexibility in matching labor supply to regional and national labor needs and to certain groups being ignored. In addition, most providers have little incentive to take students with poor basic skills or to provide remedial education. Most of them primarily accept privately-funded trainees with good skills, and the courses are geared to these people. This factor may help explain the 18 percent drop-out rate mentioned earlier. FEI grants to provide pre-training education would help, but appear to be rare. (Hanf, et al., 1978: 333-339)

One analysis includes this list of the problems that still remain with the German system of adult training: (i) how to motivate people with high unemployment risks, (ii) how to arrange courses for people not well suited to formal or school-type learning (especially older people), and (iii) matching future demand and supply skills at the local level. Despite a high level of unemployment, vacancies for skilled labor remain. (Schmid, 1981: 8)

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The Management of the U.K. Labour Market 1973-1983

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Part I - Background

This paper examines how the public sector in the UK -- principally central government, but latterly, the local administrations -- has attempted "to manage" the operations of the labor market to achieve particular outcomes or compensate for emerging problems, particularly unemployment. It considers both direct actions where the state acts as a provider of services -- job placement, training, etc. -- and indirect ones where the state acts as a catalyst or stimulus to the actions of others.

The year 1973 has been chosen as an appropriate starting point since it conveniently combines changes in the economic arena, such as the energy crisis and the first intimations of the youth bulge, with significant institutional watersheds such as the creation of the Manpower Services Commission (MSC) and the raising of the school leaving age to 16. In setting the boundaries of the theme, primary emphasis has been placed on the programs and services of labour market management rather than emphasis being placed on fiscal and social policies (such as non-wage labour costs) or legislative change (such as trade union or minimum wage legislation). However, since these broader contextual factors have been given greater prominence since 1979, brief reference is made to them where appropriate.

Part I provides a brief introduction to the institutional background and the labour market context of manpower policy.

Part II reviews some of the changes in policy emphasis before and after 1979 and their programmatic implications. Part III makes some tentative first assessments of particular programs and the paper ends by attempting to draw some broad lessons from UK experience.

Roles and Responsibilities Prior to 1973

Prior to 1973 the role of the state in direct labour market management was comparatively limited, despite the fact that the number of unemployed was a central concern of economic policy. Instead, reliance was placed primarily on fiscal measures supplemented by a variety of regional policy interventions usually directed at raising the level of capital investment in depressed regions.

The state's direct involvement in labor market management took two forms:

> -a system of local "labour exchanges" in existence since the early years of the century to control the distribution of unemployment benefits and to provide a link between employers and workers seeking employment.
>
> -a system of industrial training boards (ITB's) covering the principal sectors of the economy and charged with defining industrial training needs and overseeing the expenditure of funds provided by a statutory levy on companies in the sector and matched by central government grants. Companies carrying out training activities within the context of programs agreed by their ITB could then recoup their costs from the pool of levy and government funds.

In both cases the relevant government department was the Ministry of Labour, subsequently renamed the Department of Employment.

By the early 1970s rising unemployment levels and the intractable nature of regional disparities led to the first tentative moves to establish a supported work program for difficult to place teenagers (1972 Community Industry - 800 places) and to create a new statutory and institutional framework to give coherence to labour market interventions.

The 1973 Education and Training Act strengthened the industrial training levy system and created the Manpower Services Commission (MSC) to run the employment and training services previously provided by the Department of Employment. In announcing the creation of the MSC, the government placed considerable emphasis on its tripartite character, establishing it with a board consisting of: three members appointed after consultation with the Trade Union Congress; three members appointed after consultation with the Confederation of British Industry; two members appointed after consultation with local authority associations; one member with professional educational interests; and a chairman appointed by the government. This structure was also duplicated at regional level where local MSC boards were set up to oversee the implementation of various special labour market measures.

The Problems Calling for Labour Market Management

Rising Unemployment

From a position in 1973 of virtual parity with the average rate of unemployment in the largest seven OECD countries (2.7%), the U.K. rate has risen rapidly to a level nearly double that of the same seven states in 1982 (13.3%). Since 1973 the

rise in the U.K. unemployment rate has been greater than in any other OECD country except Spain.

Underlying this performance have been a number of factors, four of which are noted below. None of them was unique to the U.K., but in some cases they exhibit important differences in scale and timing from their incidence elsewhere, particularly compared to the U.S. experience.

Limited Employment Growth and Problems of Structural Adjustments

The single most important factor in determining the scale of unemployment and the challenge it presents to labour market management has been the very low rate of net employment growth in the U.K. This has taken the form of both limited employment creation and major job losses in declining sectors.

Over the period 1973 to 1983, the numbers employed in the U.S. rose by some 15 million or 17 percent (with comparatively small changes in average hours worked or the role of part-time jobs. On the other hand, in the U.K. total employment rose slightly until 1979 then fell precipitiously to finish some 4% lower (See Annex 1 Figure C). Contrary to U.S. experience, employment in the manufacturing sector suffered a gradual decline during the 1970s and rapid decline after 1979, from which it has made little recovery. Perhaps more important, counterbalancing growth in service sector employment has been weak, averaging only 1.2 percent per annum between 1975 and 1979 (U.S. 3.5 percent) and 0.2 percent per annum between 1979 and 1982 (U.S. 1.7 percent per annum).

The "Youth Bulge"

Like all OECD countries, the U.K. has experienced a post-war surge in its birth rate, which produced an expansion in the numbers of young people leaving school and seeking their first

jobs. This youth bulge differed in two respects from that experienced in the U.S., namely:

> -it was on a smaller scale than the youth bulge in the U.S. At its peak in the U.K. it added an additional 200,000 young workers a year to the labour force. The U.K. birth rate never exceeded 92.6 live births per thousand women (15-44), while in the U.S. the birth rate exceeded 110 per thousand women for several years.
> -the timing of the bulge was different. In the U.S. the birth rate rose after World War II and stayed high until the early 1960s. In the U.K. an initial peak in 1946-47 was followed by a long trough during the 1950s and a second peak in the mid-1960s. As a consequence, the peak of the youth bulge arrived several years later in the U.K. than in the U.S. and indeed is only now tailing off.

A Drop in Retirements

The youth bulge coincided with a fall in retirements caused by the low birth rates in World War I. The level of retirements rose rapidly during the onset of the 1979 recession, but has now fallen back again.

Changing Participation Rates

Contrary to U.S. experience, overall participation rates for the U.K. (and for many European countries) have been comparatively stable with a slight tendency to fall during the current recession (see Table 1). Within the overall average there has been a marked fall in the rates of men -- particularly in the older age groups -- and for young people, which has been balanced by rises among women, particularly those in the middle age groups.

Table 1. Some Comparative Statistics

	1973-79	1979-82	1982-83
Growth in Working Age Population (percent) (Annual Averages)			
U.S. (16 years plus)	1.9	1.5	1.1
U.K. (16-64 years)	0.3	0.6	0.7
Growth in Labor Force (percent) (Annual Averages)			
U.S.	2.6	1.6	1.2
U.K.	0.6	0.2	0.6
Participation Rates (percent)			
U.S.	62.6	64.2	64.4
U.K.	74.1	74.4	73.8
Employment Growth (percent per annum)			
U.S.	2.5	0.2	1.3
U.K.	0.2	-1.9	-0.8

Sources: National Institute of Economic and Social Research, Autumn Review 1984.
OECD Employment Outlook, Sept. 1984.

The Effect on Unemployment Levels

The overall effect of this combination of increase in labour supply, weak employment growth and, after 1979, rapid employment losses in the principal manufacturing sectors, was a rising rate of unemployment. In 1973 just over one-half million people in the U.K. were unemployed (2.6 percent) compared to 4.9 percent in the U.S.). By 1983 the official level had increased fivefold to three million with more than a million

people not included in the figures as a result of special government schemes and changes in the data collection system.

Within the overall national total some important subsidary problems had become more acute. These were as follows:

> -wide and longstanding regional disparities in unemployment had become worse. Traditionally prosperous regions--such as the West Midlands, whose industry revolved around car manufacturing--had rapidly joined the ranks of the older "smokestack" regions and in some cases exceeded them in the gravity of their problems.
> -rates of youth unemployment, never high by U.S. standards, rose dramtically. In September 1973, only 14,000 teenagers were without work; by September 1983, even after special programs and an expansion in further education provision, 289,000 school leavers were still unemployed.
> -the ethnic dimension of unemployment, particularly in a small number of inner city areas, rose to prominence with very high concentrations of unemployment and associated stress and social tension.
> -the long-term unemployed component of the unemployment total (the percentage of those who had been without work for one year or more) rose to 1.3 million, or 40 percent of the 1984 official unemployment total.

Low and Declining Levels of Investment In Training

Less visible and emotive than rising unemployment, but conceivably as significant for long-term economic performance, has been the gradual slackening of investment in basic skills training, especially within the private sector. Precise figures are not readily available, but indirect indicators such as the trends in numbers of apprenticeships and in ITB levy income together with comparisons with practices elsewhere in Europe point to

Table 2. MSC Program Participation 1981-85 (000s as of March)

Scheme	1981	1982	1983	1984	1985
Temporary Short Time Working Compensation (TSTWCS)	984.4	175.0	115.0	12.0	N/A
Job Release Scheme (JRS)	59.0	63.0	79.0	94.0	72.0
Youth Opportunities Program (YOP)	140.0	215.0	230.0	2.0	—
Youth Training Scheme (YTS)	—	—	3.0	242.0	319.0
Community Industry (CI)	6.3	7.1	7.0	7.0	8.0
Special Temporary Employment Programme (STEP)	—	—	—	—	—
Community Enterprise Programme (CEP)	13.0	27.5	45.0	113.0	132.0
Community Programme (CP)	—	—	—	—	—
Training for Skills/ Training in Industry	28.5	35.0	18.0	1.5	1.5
Young Workers Scheme (YWS)	—	2.5	2.2	29.0	60.0
Enterprise Allowance Scheme (EAS)	—	4.1	10.8	9.2	40.0

the following picture:

> -even prior to 1973 there existed long established patterns of weak private sector investment in human capital (as compared to West Germany or Scandinavia) and a limited tradition of worker financed advancement through training as exists in the U.S.A. (see Tables 1 and 2).
> -during the 1970's training came to be seen by many companies as a luxury or at best, a low priority area for investment. this attitude resulted from several factors including poor economic performance, subsidies on capital investment and an increasing tendency to take a short-term view.

-as a result of rapid inflation and the claiming of exemptions from the levy, the resources available from the levy fell in real terms during the 1970's. The government was obliged to inject increasing amounts of public funds into training and to take a greater lead in providing resources in order to make good the growing deficiency. (See Table 3.)
-as a result of the very severe restructuring experienced within the manufacturing sector, since 1979 there has been a major collapse in the level of skill training, as measured by the number of apprenticeships offered each year.

With industry operating at low levels of capacity and with substantial unemployment, evidence of skill shortages has been limited. However, concern has been expressed in various government reports that in the short term the responsiveness of the U.K. economy to an economic upturn could be constrained by skill bottlenecks, while in the longer term both the education establishment and the private sector are failing to equip the work force with the new skills likely to be required by rapidly changing technology.

Old Policies and Approaches

Pre-1979 Policies and Programs

The period from 1973 to 1979 can be viewed as one in which an initial impetus toward the creation of a coherent, integrated, active, manpower policy capable of providing a wide variety of services in an attractive and planned manner confronted the realities of continuing unemployment.

While some elements of that initial vision were implemented, resources and management time were progressively preempted for the creation of a large scale program of special job creation

Table 3: Expenditures by MSC, 1980/81 to 1983/84

£ million

	1980/81	1981/82	1982/83	1983/84 *
Employment Division				
1. Jobcentres and other employment Services	138.1	145.0	147.5	143.0
2. Employment Rehabilitation	15.5	16.1	18.6	19.6
3. Sheltered Employment	54.9	58.9	66.8	72.7
4. Community Programme[2]	45.7	86.6	177.0	399.4
5. Voluntary Projects Programme	—	—	0.2	5.6
6. Enterprise Allowance Scheme	—	—	2.4	24.4
Total	254.2	306.6	412.5	644.7
7. Professional and Executive Recruitments	5.4	5.5	4.3	-0.1
Training Division				
8. Youth Training Scheme[3]	213.7	395.5	542.9	777.1
9. Industrial training organizations	99.2	117.4	81.3	18.5
10. TOPS	163.3	153.4	161.5	156.4
11. Other occupational training	—	—	—	4.2
12. Open Tech	—	—	—	4.4
13. Training research and development	2.6	2.9	3.5	1.5
14. Community Industry	19.0	20.9	23.4	23.8
15. Job Creation Programme	0.5	0.1	—	—
Total	498.3	690.2	812.6	985.9

Table 3: Expenditures by MSC, 1980/81 to 1983/84 (continued)

16.	Skillcentre Training Agency	83.0	81.7	79.2	80.0
17.	Technical and Vocational Education Initiative	—	—	—	7.3
Support Services					
18.	Support services	19.1	21.8	26.4	29.7
19.	Dispersal	9.3	5.6	2.4	0.3
Total		28.4	27.4	28.8	30.0
Total MSC		869.3	1111.4	1337.4	1767.8
of which MSC expenditure on behalf of Department of Employment		120.1	166.5	267.2	495.9

Notes

[1]Provisional. The MSC accounts for 1983/84 will be published in 1984.

[2]Including expenditure on the Special Temporary Employment Programme and the Community Enterprise Programme

[3]Including expeniture on the YOuth Opportunities Programme

[4]The figures in this column differ in some respects from those in the corresponding solumn of Table 6.4 because in this table administration costs have been allocated across programs

[5]Expenditure in earlier years is included in line 8 but can not be separately identified

and training measures aimed primarily at the young unemployed.

Among those aspects of an active manpower policy which went ahead, albeit at a slowing pace, four are worth noting. They are described below:

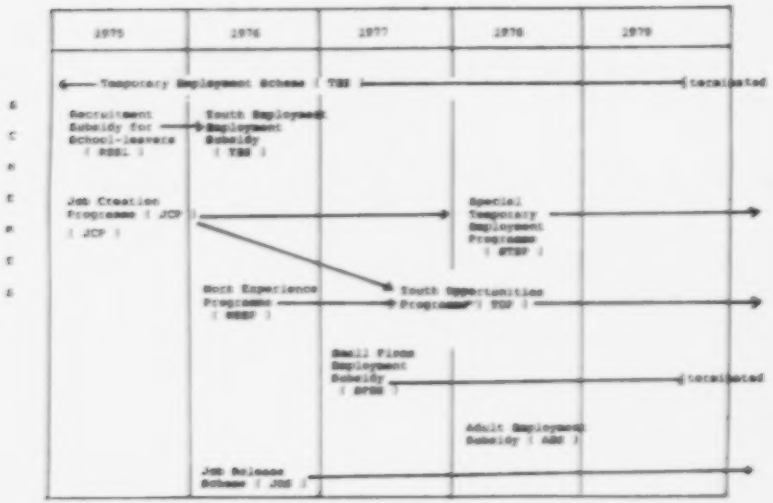
-the transformation of the old labor exchanges into modern, main street located "job centers" with an open-plan, self-service style of operation.
-the consolidation and modernization of the network of skill centers.
-the expansion of government financed training at the semi-skilled level (TOPS).
-the development of an administrative and advisory infrastructure at regional and local levels consisting of regional MSC boards; regional, district and area MSC offices; and District Manpower Committees.

However, during 1975 in the face of rising unemployment, the MSC was obliged to begin the rapid development of what was to become a broad and evolving panoply of "Special Programs," consuming ever larger sums of money and coming to dwarf all the MSC's other activities.

Diagram 1 indicates the principal new schemes originated in the period up till 1979, their year of initiation and their genesis. Diagram 2 provides data on the number of participants in each. Conceptually the various schemes divide into five categories, namely:

-subsidy schemes aimed at keeping workers employed who are likely to be laid off or whose status is likely to change to part time.
-schemes to provide short-term employment on projects of public benefit (supported work) for unemployed persons.
-schemes to provide school leavers with temporary work experience in order to overcome the catch 22 linkage between absence of work experience and inability to get a first job.

DIAGRAM I MSC SPECIAL PROGRAMS AND EMPLOYMENT SCHEMES 1975-79



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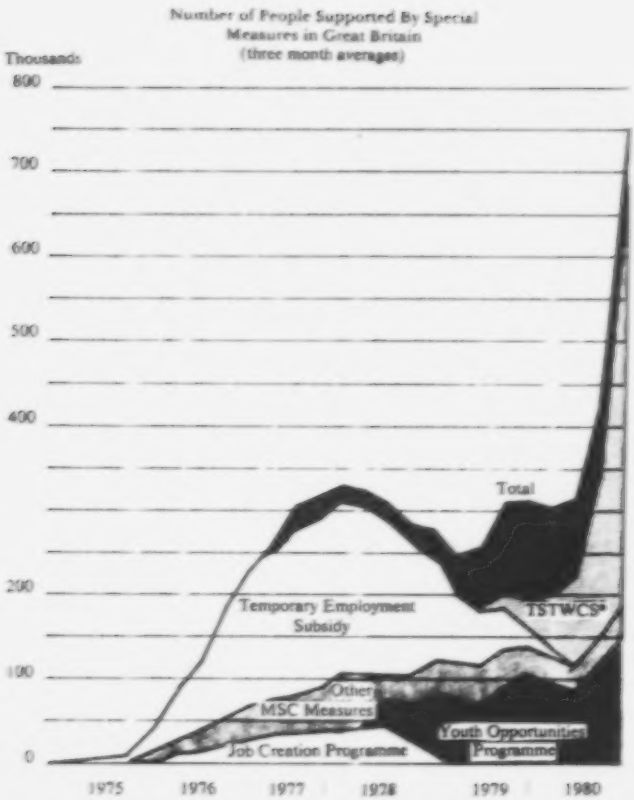

(i) *TSTWCS: Temporary Short Time Working Compensation Scheme Figures are based on the number of workers for whom payments are made each month. The number of jobs supported will be considerably smaller. TSTWCS figures before April 1980 are estimated.

(ii) Other MSC measures have included:
Community Industry†
Special Temporary Employment Programme†
Training in Industry†
Job Introduction Scheme
Work Experience Programme

(iii) Other DE measures have included:
Short Time Working Compensation Scheme
–Textile, Clothing and Footwear
Small Firms Employment Subsidy†
Job Release Scheme†
Adult Employment Subsidy
Youth Employment Subsidy

† Applicable in October 1980

Source: Department of Employment

- a scheme to try to open up additional job slots for the unemployed by providing incentives to older workers to retire.

Of these five, the most durable and most expensive were YOP and STEP, targetted respectively at school-leavers unable to find work and at adults, particularly those under 25. These schemes have become the central plank of the response to rising unemployment, financed by the MSC but delivered at local level by a variety of public, private, and non-profit sponser organizations.

Post 1979 Policies and Programs

With the onset of the Thatcher administration in 1979, the priority accorded to labor market policy and its detailed practice underwent some major changes. First, the inflation rate rapidly displaced the unemployment rate as the primary concern of economic policy, with the prevailing ethos being that only by reducing inflation would the conditions be created for sound employment growth and a reduction in unemployment. Second, there was a presumption that only the private sector could create "real jobs." Hence the belief that many labor market programs were substitutes or "second guesses" for market forces and were at best wasteful; at worst, counter-productive. Thirdly, there was a belief that the principal cause of unemployment was rigidities in the operation of labor markets--inflexible real wages and differentials, minimum wage legislation, etc.--and that the role of government should be to remove these in order to release pent-up demand for labor.

These changes had important implications for the focus of government efforts, the level of resources that the government was prepared to commit to MSC type programs, and the continuance of the prevailing tripartite approach.

Shortly after coming into office the new government began to implement this philosophy in a number of ways. These are

enumerated below:

> -several schemes were either wound up (SFES) or substantially reduced (TSTWCS).
> -the budgets for the main youth schemes were cut back with a consequent drop in the number benefiting.
> -the growth curve of the administrative budget and staff levels of the MSC were put into reverse, and its capital programs for modernizing Job Centers and Skill Centers were pruned.
> -the commitment to a tripatite approach to labor market actions was weakened.

The cumulative effect of these cuts was to reduce the MSC's budget by 30 percent below what it was projected to be in 1984, and by 1981 MSC was operating with 13 percent fewer staff despite a 60 percent increase in its customers, i.e., job seekers at its Job Centers.

These initial cuts and the ideology underpinning them notwithstanding, the very rapid acceleration of unemployment during the period 1979 to 1982 has meant that the government has been obliged to turn to the MSC to provide a response to the problem. Given the emotive nature of the large youth component to unemployment--as the peak of the bulge was passing out of the schools-- and the occurrence of urban riots, cuts to the YOP programs were first reversed. This problem underwent a substantial expansion in size and was finally relaunched in 1982 as a major foundation year program for all unemployed school leavers (Youth Training Scheme-YTS).

The Youth Training Scheme (YTS) was introduced in April 1983 to improve young people's preparation for work by providing 16-year-old school-leavers and unemployed 17-year-old school-leavers with a year's integrated training and work experience. There were over 370,000 entrants to the scheme in 1982-84. Most young people take up places offered by employers on what are known as 'Mode A' schemes. These schemes

provide a planned program of work experience and on-the-job training. About one quarter of trainees take up places on 'Mode B' schemes, in which they train at Information Technology Centers (ITeCs), Training Workshops, Community Projects or other community-based schemes; they receive planned programs of work experience and also where possible, on-the-job training at employer premises. During their time on YTS, participants are paid fixed allowances (£26.50 per week) plus minimal travel expenses. All young people have at least 13 weeks off-the-job training, for example, in a college or training center. All receive at least some grounding in computer literacy and information technology.

The young people who spend a year at one of the 160 ITeCs are given the opportunity of training and work experience in microcomputing, basic electronics and electronic office skills.

Programs to provide temporary work for unemployed adults have followed a similar trend, albeit in a slower and more hesitant way with cutbacks alternating with expansions. Since 1983, however, the rapid rise in the long term component of unemployment has given added impetus to the case for supported work schemes and its latest variant the Community Programme Scheme (CPS) has recently experienced rapid expansion. (See Table 2.)

The Community Programme (CP) was introduced in October 1982, replacing the much smaller Community Enterprise Programme. CP provides a year's employment on projects of benefit to local communities for the long-term unemployed, who can have particular difficulties because of their lack of recent work experience. By enabling them to do real jobs, CP helps them to get back into the habit of working and to acquire a recent reference that can stand them in good stead in competing for jobs when their time on CP is over. Those taking part are paid the local hourly rate for the job, subject to a maximum overall weekly average. The projects on which people work are varied, but most are organized by local authorities or voluntary

organizations. There have to be rules for projects to qualify, for example, nobody can use CP to do work that they were planning to do anyway. But all the projects offer real benefits to the local community--cleaning up derelict land and canals, building Scout halls, installing loft insulation and draught-proofing for pensioners, and renovating community centers.

There are now 130,000 places at a time available under CP throughout the country. Up to 200,000 people benefit in a year. The cost in 1984-85 will be £549 million.

CP is continuing to develop, and training in conjunction with it is being introduced. Some 50,000 participants will benefit further from this.

Apart from eliminating certain of the programs it inherited from the previous administration and expanding others, the government has launched a number of new initiatives to give expression to its views as to how the workings of the labor market might be improved. These initiatives can be grouped according to the themes that they aim to embody.

First, to encourage people to "price themselves into work," the Young Workers Scheme (YWS) was introduced offering employers a wage subsidy on new hiring, subject to them paying less than a specified basic wage.

The Young Workers Scheme (YWS) was introduced in January 1982 to encourage employers to provide more full-time permanent jobs for young people at wages realistically reflecting their youth and inexperience.

YWS was available initially to employers taking on young people aged 16 and 17 years. After the introduction of YTS the age of entry was changed to 17. Employers receive £15 per week for every young person they take on at a gross wage averaging £50 per week or less.

Since the YWS began, over 360,00 applications for support have been approved. The cost in 1984-85 will be £43.5 million.

Second, to encourage people to create their own job the

Enterprise Allowance Scheme (EAS) was established to allow people a basic social security income level salary for a year while attempting to get their new business off the ground. In addition the MSC has introduced a variety of training courses ranging in length from a week to three months to equip both unemployed and employed people with the practical skills needed to create their own businesses (New Enterprise Programme).

The Enterprise Allowance Scheme (EAS) was introduced on a pilot basis in five areas from early 1982. In August 1983 it was made available throughout Great Britain.

EAS helps unemployed people who want to start their own businesses but would be deterred from doing so by the prospect of losing social security benefits once they began. Entrants, who must have available at least £1,000 to invest in the business, are paid a flat-rate allowance of £40 per week for a year to overcome this problem. Since EAS was launched nationally, 65,000 people have benefited from it.

Many different types of businesses are supported—plumbers, mechanics, silk-shirt manufacturers, dress makers, computer software designers.

In view of EAS's success, the government announced in November 1984 that it would make further funds available from April 1985, so that up to 1,250 people can enter it each week—an increase of 25 percent. In all, £11million is being provided for EAS in 1985-86.

Third, various steps have been taken to improve the vocational orientation of secondary education. The curriculum, examinations and teacher training are under review. In England and Wales a new Certificate of Pre-Vocational Education has been introduced for less academic pupils age 17 and over. The MSC has been given funds to launch the Technical and Vocational Education Initiative (TUEI) which supports, on a competitive basis, innovative technical and vocational projects in selected secondary schools.

Fourth, additional efforts have been made to redistribute the existing stock of jobs. The longstanding Job Release Scheme has been widened to include part-time arrangements, and a new Job Splitting Scheme (JSS) was introduced in January 1983.

The Job Release Scheme (JRS) has been running since February 1977. It enables older workers to retire early with an allowance until they qualify for the state retirement pension, provided that their employer replaces them with an unemployed person.

The age at which workers have qualified for JRS has varied over the years in the light of financial constraints and developments in other employment measures. At present disabled men aged 60-64, other men aged 64 and women aged 59 are eligible.

Since JRS started eight years ago it has provided some 280,000 people with the opportunity to retire early and make room for someone unemployed.

In October 1983 a further option was introduced which enabled people to part-retire early by giving up half their job in return for an allowance, and a part-time worker to be taken on. To encourage more people to take up the opportunities, the government is now making the scheme more attractive to employers and employees by paying employers a grant of £840 to help meet the costs of creating two part-time jobs, by increasing the allowance for those partially retiring, and by allowing them to transfer later to the full-time scheme.

The experimental Job-Splitting Scheme (JSS) was launched in January 1983 with the aim of encouraging employers to provide more part-time jobs for the unemployed by splitting existing full-time jobs. A grant of £750 to help meet administrative and training costs is available to the employer over a period of 12 months in return for creating the part-time jobs and keeping them filled with eligible recruits. Over 1,000 full-time jobs have so far been split with the support of JSS.

Changes are being introduced from April 1985 to make JSS more flexible and attractive to employers. Support will be available to employers who create two new part-time jobs for people leaving YTS or other government schemes, or who create a part-time job from regular overtime worked in existing full-time jobs. The grant will be increased to £840.

The Community Industry scheme was introduced in 1972 and provides temporary job opportunities for personally and socially disadvantaged young people. The scheme is open to those between 16 and 19 years of age but is essentially for those who have declined, left or completed training under the YTS. The places on the scheme are provided by Community Industry Ltd., a registered charity, on behalf of the Department of Employment and the Manpower Services Commission.

The young people are generally employed for up to a year by Community Industry Ltd., who assumes the normal duties and responsibilities of an employer, on work of community benefit like providing access paths to places of local interest, gardening for the elderly and helping handicapped people. Entrants can also undertake part-time study for various basic qualifications and receive social and life-skills training. They usually work in teams, and this helps them to acquire and practice work skills, as well as to develop personally.

The scheme provides temporary work opportunities for 7,000 young people at a cost of £25.6 million in 1984-85.

Fifth, steps have been taken to make the training system more responsive to market forces. The skill center network has been grouped into a new Skillcenter Agency and given a break-even financial target. A version of the Open University distance learning system entitled Open Tech has been established to make flexible training more widely available to adults wishing to acquire or update skills in technical or supervisory occupations. A Consultation paper has been issued on an experimental training loans scheme for up to 10,000 adults.

Finally, for unemployed people with little prospect of

immediate employment, the Voluntary Projects Programme (VPP) has been launched to pay participants to undertake voluntary work of benefit to the community.

The Voluntary Projects Programme (VPP) enables unemployed people to take voluntary work without losing their entitlement to unemployment or supplementary benefit. VPP, which began in August 1982, provides the unemployed with constructive activities which can develop their skills or prepare them afresh for work, including self-employment. The projects supported can also provide substantial benefit for the community. VPP provides for about 55,000 people a year, over half of them long-term unemployed, at a cost in 1985-86 of £12 million, which covers grants to sponsoring organizations to operate approved projects.

The budgetary implications of the expansion of existing programs as well as the launching of the new ones are indicated in Table 3. During a period in which the rate of inflation was falling sharply toward the 6-8 percent range, total MSC expenditures on both its own programs and on behalf of the Department of Employment more than doubled. Within the three-year period the percentage of total expenditure accounted for by "special programs" type initiatives rose from 32 percent to 70 percent of a greatly expanded total.

In addition to the above burst of new schemes, important changes have been instituted in the way unemployment is recorded, which have had the effect of substantially reducing the headline unemployment figures. From October 1982, only those eligible to claim unemployment benefits (rather those registering for work) have been included in the unemployment count. This change, which excludes those with limited entitlements, such as women returning to work, reduces the official unemployment level by some 180,000 persons. In the 1983 budget, certain classes of workers over 60 who regularly apply for work to protect pension and other entitlements were exempted from doing so. These changes removed a further

130,000 from the unemployment register. Combining these statistical changes with the numbers removed from the register by virtue of participating in one or other of the special measures suggests that approximately 850,000 people, or 20 percent of the total, are being excluded from the unemployment figures.

Within the last two years a variety of legislative and administrative steps have also been taken or have been proposed to improve the operation of the labor market. Some of the most noteworthy are described below:

-the Department of Education and Science established its PICKUP program in 1982 to help industry in collaboration with education institutions to upgrade the skills of its work force.

-a consultative document has been circulated on the subject of Training loans with a view to launching a pilot program.

-schedule 11 of the Employment Protection Act of 1975 (which could be used to require employers to pay the same wages as other employers) has been repealed; and the Fair Wages Resolution (which had a similar effect in relation to public-sector contracts) has been rescinded.

-numerous changes in acts governing the conduct of collective bargaining and other union affairs have altered the balance of power in favor of employers by outlawing secondary picketing, increasing union liability in the event of unlawful disputes and regulating the conduct of strike balloting.

-the qualifying period for protection against unfair dismissal has been increased to one year generally and two years for firms with twenty or fewer employees.

-the National Insurance Surcharge has been abolished, reducing the level of non-wage labor costs borne by employers. The level of contribution required from both employees and employers at the lower pay levels has been reduced.

-a consultative document outlining options for the

> abolition or reform of the Wage Councils, which govern the wages and conditions of 2.75 million workers in 26 industries, has been circulated. Subject to the response received, the government proposes to end its ratification of ILO Convention No. 26.

The Rise of Local Responses

Faced on one hand with rapidly rising unemployment levels and lengthening unemployment duration figures and on the other hand by manpower systems increasingly understaffed and a pattern of responses biased heavily towards supply-type actions, many local authorities at city and county level have begun developing their own responses to the problem tailored more closely to local perceptions of needs.

Finance for their efforts has come from various sources which, when judiciously combined, have offered very high levels of financial leverage. Four in particular have been important. They are:

> mainstream funds derived from local tax receipts.
> -private sector contributions in cash or kind, especially staff "on secondment."
> -resources available on a matching basis from the European Social Fund (ESF) of the European Economic Community.

The last of these sources (the ESF) has been particularly important in providing a financial escape valve in an era of increasingly stringent central government enforced public expenditure controls.

Using these resources local authorities have been able to launch their own schemes--whether within the broad MSC program frameworks or outside them--and to back imaginative proposals arising from local bodies, whether in the voluntary sector or representing coalitions of interests. Although it is

difficult to quantify the scale of this locally intitiated effort, it has grown very rapidly and now represents a large and often more diverse and imaginative adjunct to the central system. In some fields, such as recruitment subsidies--of which there are at least 35 schemes running throughout the U.K. with ESF support--local action goes far beyond anything that is available from central government. Local labor market actions usually form part of a broader yet more integrated local economic development strategy, encompassing efforts to attract new hi-tech employment, restructure large firms in difficulities, and stimulate new local enterprise.

Successes and Failures

Criteria and Measurement Problems

Typically the provision of state aids, whether in the form of direct financial assistance or in new programs and structures, is judged according to two main criteria. The first is additionality, which is the extent to which the incentive being offered, whether in the form of a wage subsidy or a training grant, induces a change over and above what would have happened in its absence. Is there a net increase in desired activity? Central to achieving additionality is the avoidance of either displacement (taking over something that is already happening) or substitution (supporting something that would have happened anyway). The second is efficiency. Is the public sector, in offering its incentive, paying as little as is required to achieve any given level of additionality?

While these criteria provide a firm conceptual basis for making assessments, in practice the problem is far less tractable. Trying to establish the nature of the counter-factual (what would have happened in the absence of the intervention) or the efficient level of subsidy is difficult in the best of circumstances

but is easier if a control group can be identified or a structured experiment can be organized. Both of these conditions are difficult to fulfill in practice for two reasons. First, programs such as YTS and CP are so large relative to the population of potential beneficiaries and potential sponsors as to themselves alter labor market attitudes and practices, such that finding a control group is virtually impossible. Second, the operational context against which program interventions are made is diverse and has changed rapidly over time. As a result of these problems, evaluations tend to adopt intermediate variables, such as program take-up or occupancy, as proxies for success or failure.

The sections that follow attempt to review what is known about the different programs' achievements. For simplicity it divides the field into three groups; those where evidence and inference suggest that the program has not been a success, those where "the jury is still out" and those where there seems to be some evidence of positive benefits. In all cases the schemes being reviewed are those originated at central government level.

Some Preliminary Judgements

Some success stories

Among those schemes currently operating there exists a broad consensus shared by the government, the MSC, and its critics that certain schemes are proving to be successful and useful. Each of these is reviewed in turn.

The New Enterprise Programme

This consists of a mix of MSC financial training courses operated by local technical colleges and regional business schools. It is aimed at various groups with both the unemployed

inputs from local bank managers, accountants, lawyers, and specialists such as marketing and property experts. In addition, the longer courses are based on project work which allows participants to actually research and test out their business ideas, leaving them at the end of the course, in many cases, with a robust business plan and a variety of useful contacts to put quickly into effect.

Follow-up surveys of participants indicating a high success rate have led to a rapid expansion of the resources committed to this type of training to 6,000 in 1984-85 and 15,000 in 1985-86.

Enterprise Allowance Scheme

The initial results of some follow-up surveys of early scheme participants suggest the following:

-approximately 50 percent of participants wouldn't have gone into business without its assistance.
-those who would have gone into business anyway felt that it accelerated their plans and reduced the risk of failure. Also, they tended to employ others and grow faster than those who were truly additional.
-once allowance is made for the displacement effect for low entrants the net number coming off the unemployment register is estimated at 32.
-calculations of costs and benefits including savings on transfer payments indicate that the cost per new job at the end of the first year was £2,690, which will tend to zero over two to three years if the job survives.

As a result of these findings the government has very substantially expanded the finances available to the scheme and extended its life until 1986.

Technical and Vocational Education Initiative

Under this scheme local secondary schools have had to bid for extra resources to establish new projects with a technical or vocational education bias. This has produced a flood of both new ideas and new ways of carrying them out, particularly involving links between schools and other local interests, especially firms.

It is too early for any evaluations to have been made of program outputs. However, the widespread enthusiasm generated by the scheme has led the government to expand it substantially so that all areas of the community might benefit.

"Jury Still Out"

Within this category are the two largest MSC programs, the Youth Training Scheme for unemployed school leavers, and the Community Program for adults.

The Youth Training Scheme

On the positive side there is no doubt that compared to the despair, demoralization, and loss of work habits likely to follow leaving school and going straight onto the unemployment register, access to the YTS with its year long mixture of work experience and off-the-job training offers positive experience. However, it is not clear whether it fundamentally changes employability and the employment chances of its participants, rather than just delaying the moment of truth by a year or so. Among the weaknesses of the scheme are the following:

> -post-program job displacement rates have fallen progressively over the years as the number of available jobs has shrunk. To a certain extent this has been offset by rising numbers going into further

education.

-the degree of self-confessed exploitation of the scheme by employers (substitution) whereby they come to rely on a rolling intake of subsidized young people instead of hiring permanent staff has also risen.

-the take-up of the scheme by young people has been far less than predicted by MSC, in large part because of a rising level of "consumer resistance." This in turn is rooted in several factors. For the less academic school-leaver YTS appears like a return to school, an institution that they feel has failed them. For those living in very depressed labor markets, the rhetoric of improved employability rings rather hollow in the face of a lack of jobs while "work experience," doing unskilled or at best semi-skilled jobs for a training allowance instead of a regular wage seems to smack of exploitation.

Faced with continued slack demand for labor in many regions, the MSC has proposed that from 1986 YTS offer two years of training and work experience. Although unstated, this hitherto inconceivable step has become a budgetary possibility because of the considerably lower level of take-up of the scheme to date.

The Community Programmme

The Community Programme, after a chequered history of cutbacks and expansions, is now experiencing a major expansion as the long-term component of unemployment rises inexorably. Providing up to one year's supported work, it has a number of positive features, namely:

-it is capable of closely targeting the long-term unemployed. Follow-up surveys of program beneficiaries suggest that it is successful in this goal.

-it pays a rate for the job and hence carries less

stigma.
-it tackles socially useful projects of benefit to the community.
-it has a comparatively low net cost to the Exchequer due to the savings it allows in transfer payments.

To date, take-up of the scheme has not been a problem, however, in terms of the scale of the needs, its own unrealized potential for human development and for the improvement of the quality of community life in many depressed towns, it appears sadly inadequate.

Some failures

Two schemes fall squarely in this category, the Job Splitting Scheme and the Young Workers Scheme.

Job Splitting

This idea, launched in early 1983; never really took off. In the first year only 734 jobs were split and by the end of October 1984, only a further 256 had been added. Despite this poor take-up the government has retained the scheme and attempted to make it more attractive to employers by raising the level of grants payable to them for every job split.

Young Workers Scheme

Launched expressly to stimulate the hiring of young people, while at the same time acting to depress youth wages and widen youth/adult differentials, the scheme has had few problems in achieving a considerable level of take-up by employers. However, two evaluations made of the scheme have been extremely critical of the level of additionality that it has achieved. A preliminary study by the Institute of Manpower Studies at

Sussex University (March 1983) indicated that only 10 percent of the jobs created were additional and that some 6,500 older workers had been displaced by younger ones as a consequence of the scheme. As a result the net cost per additional person inserted into a job was estimated as being nearly 10,000 pounds. A subsequent estimate given by the Auditor and Comptroller-General to the House of Commons Public Accounts Committee indicated a 25 percent additionality level.

Over time, efforts have been made to make the scheme a logical sequel for those young people leaving YTS without a job. However, in the face of the above criticisms of its cost-effectiveness, advantage is being taken of the decision to increase the duration of YTS to two years to phase the scheme out.

Some Broad Lessons

Reflecting upon the efforts made over the period 1973 to 1983 to confront the U.K.'s historically weak commitment to training and to combat a secularly rising level of unemployment by a variety of labor market interventions suggests four principal lessons for the future. Each is discussed in turn.

The Limitations of Supply Side Policies

Even before the arrival of the Thatcher administration, much of the MSC's expenditures to combat unemployment reflected an assumption that it was deficiencies in the quality of the labor supply--particularly its youth component--that accounted for high levels of unemployment. As a result schemes such as YOP stressed improving 'employability' as their primary objective, to be achieved by familiarizing young workers with the world of work through work experience.

However, in the face of both poor national economic performance and an overall slackness in the demand for labor,

together with severely depressed local labor markets in areas bearing the brunt of restructuring, efforts to improve employability appear to have made little net contribution to resolving unemployment. At best they seem to merely reshuffle the pack, inserting a marginal labor market candidate into work at the expense of a previously intra-marginal one.

In partial recognition of this fact, as well as the need to keep larger numbers of young people out of the labor market for ever longer periods of time, the rationale of the current youth scheme (YTS) has become the provision of a foundation year (to increase to two) of vocational training. In short, a policy of training for stock in the hope of a subsequent recovery in the demand for labor.

As previously noted, it has been the local authorities at city and county levels--particularly those suffering the highest rates of unemployment--who have recognized the limitations of such a supply-side approach in the absence of complementary actions on the demand side. As a result they have attempted to link their labor market actions more closely to their broader economic policies via the elaboration of local economic strategies.

The two areas where supply side actions on their own do appear to have had a useful impact is in the field of training people for self-employment type actions.

The Difficulties of Public Disengagement

Although historically the provision of training has always been viewed as primarily the responsibility of employers, since 1979 the ethos of market-led and employer-determined training has received added emphasis. Unfortunately, this approach has been required to operate in a context characterized by:

> -a longstanding under-valuation by industry and employers of the worth of investments in training and an inability or unwillingness on the part of employers

to engage in manpower planning or to clearly specify their skill needs.
-a rapid and painful process of industrial restructuring which took some companies to the brink of bankruptcy and beyond and led most to substantially cut back on their training efforts.

Since the government has not been prepared to contemplate likely consequences of a market determined level of investment in training, it has been forced to face in two directions at once; to talk tough about employers' responsibilities but to experiment with a wide variety of incentive schemes to stimulate private sector contribution to the problem.

Confusing Social and Manpower Policies

As the numbers of young people affected by the various youth programs have increased and the duration of their involvement has lengthened in the face of continued deficient labor market demand, it has become increasingly clear that the rationale for such programs lies more squarely in the field of social policy than that of manpower considerations. YOP and YTS act not only as transfer payment systems but as a means of keeping young people active and out of the sort of trouble assumed to be a product of idle hands. To the extent that there is a training component in the new schemes, it is by implication compensating for or correcting deficiencies produced by the mainstream secondary education system through a raising of the minimum age of official labor market entry.

Dressing up such actions in manpower clothes runs a number of significant risks. It leads to a loss of credibility for public actions in the eyes of young people and a reduction in their willingness to accept change. Schemes which promise substantial training or an entry level job but don't deliver lead to skepticism and withdrawal. It diverts attention and resources

from more substantial manpower issues. Massive YTS expenditures, which represent a policy of training for stock at what is at best a semi-skilled level, preempt attention and resources from more critical manpower problems such as actual or potential skills, bottlenecks at crafts, and technician and technical management levels. Similiarly, adding an extra year or two of supplementary post-16 education weakens the pressures for change in the mainstream educational system. It can induce distortions into critical areas of social policy. For example, the widespread use of unemployed young people to provide a wide range of domiciliary services to the elderly and infirm, while of considerable value to the beneficiaries, risks replicating the worst features of the existing welfare services with their tendency to erode responsibility and create dependency. Similiarly, there is a risk that the voluntary sector (non-profit) may have their priorities and modus operandi altered by close involvement in the delivery of centrally specified services in such a way as to lose their independence.

Market Criteria or Equity?

As the overall rate of unemployment has risen, so too has the degree of labor market polarization. Not only have regional differences grown but within regions and communities the gap between those either in employment or with a strong stake in the labor market - via the possession of key skills or professional affiliations - and those who are in the ranks of the unemployed has progressively widened. As individuals move from one to two and three years without jobs (1.3 million, 0.7 million and 0.45 million respectively in 1985) there is an erosion in their skills, work habits and a major reduction in the probability that many will ever get back into work again.

Indeed some statistical series suggest that in the period 1979-1981 something approaching 1 million workers dropped out of the labor market because they felt that they were unlikely

to be able to get a job in their area.

From the point of view of a market-driven manpower policy, providing training or placement services to the long term unemployed in general, and in particular to those in depressed regions, represents a poor investment of public resources. The cost of getting them back to an acceptable level of skill and motivation is likely to be high, while in the absence of a more buoyant demand for labor, they are always going to be at the back of the job queue.

This fact has been implicitly recognized by the MSC in its Adult Training Strategy which, in allocating its training expenditures, gives overriding priority to the needs of the growing sectors and regions of the economy.

Training for the unemployed in low priority regions and sectors is therefore implicitly left to local authorities and non-profit groups assisted, when available, by subsidies from the European Social Fund.

Instead of receiving training, the long-term unemployed are increasingly being provided with part-time jobs in low level supported work programs. As with the youth programs, the strategy is largely one of attempting to put the problem in a holding pattern pending changes in the overall economic climate.

French Labor Market Policies

(This paper drawn from a report prepared by Michael J. Piore for the German Marshall Fund and other sources).

Howard Rosen

In order to understand the mid-1980's labor market policies of France it is first necessary to examine some of the changes affecting the country's economic structures. France, as well as other industrialized countries, faced a major economic crisis in the 1970's and early 1980's requiring adjustments of production processes, the organization of business structures, products and worker training to new, different and expanding international markets. Domestic markets which had, in the past, been geared to mass production, achieved by breaking down the production process into progressively specific tasks, specialized resources, narrowly trained workers and single process machines, now became too small to sustain the economy and fully utilize the country's labor force. France, as well as other industrialized nations and developing countries, found themselves locked in a world wide battle competing for international markets.

Industries which wanted to compete in these markets had to move from the technologies economic structures associated with mass production toward new and more flexible economic arrangements which permitted them to respond more effectively to different challenges. Two forms of flexibility emerged. One simply move production toward institutional structures, regions, and labor where resources were cheaper and could be easily dispersed according to demand. This type of flexibility essentially continued to use the same technologies of mass production. The second structural form depended on more general tools and equipment and used a more broadly trained labor force to produce a continually shifting product mix. This latter system of "flexible specialization" is associated with the computer and its capacity to change software so that the economic advantage of physical

changes can be more easily and quickly derived from the equipment in use.

The hallmark of flexible specialization is continual adjustment in the product and production process. For this, the rigid hierarchy of the past must be replaced by a cooperative and interactive mode. Workers and managers, contractors and subcontractors, and the various organizational divisions are required to become collaborators--exchanging information continuously and often, changing role and function as well.

The generality of the resources used and their consequent ability to be productively employed in a variety of different places and organizations eliminates the incentives which operate under mass production for business organizations to support research and development, worker training and other developmental activities. Because of the greatly reduced importance of economies of scale, flexible specializations need not involve the maintenance of large markets or the guarantee of aggregate demand on the international or even the national level. Any producer can survive by finding a small niche in this type of market.

French Economic Policy

For most of the postwar period, French policy was quite deliberately conceived as an effort to build and sustain a system of mass production. There was virtual unanimity among politicians and policy makers that the basic weakness of the French economy was that its business enterprises were too small and too diffuse to achieve the economies of scale and the technological dynamism associated with mass production. State policy was directed at the reorganization and concentration of the productive structure to achieve the institutional base of a mass production economy. Advocates of this policy argued during the 1970's that the goal of a mass production economy

was being undermined by the resistance of the work force to the progressive fragmentation of job tasks and the rigid, hierarchical division of labor associated with mass production.

The Socialist Party which came to power in 1981 favored the nationalization of major firms and financial institutions, and envisaged a process whereby state planners would direct the course of economic activity through the nationalized sector. Nationalization was conceived in terms of a mass production system in which the whole productive structure was linked together in a series of tightly integrated, hierarchical relationships. It followed that the major corporations now owned by the state would exert tight direction and control over their subcontractors and suppliers.

Another faction of the Socialists addressed itself to the frustration and alienation of workers entailed in mass production. This group proposed to improve the conditions of workers by decentralizing decison making power. This was to be achieved by increasing the autonomy of lower level governmental units and by increasing worker participation in the management of productive enterprises.

When the Socialists came to power in 1981, France along with the rest of the industrial world, was in a recession. The government attempted to bring the economy out of that recession through a massive increase in state expenditures. The Socialists increased social spending by expanding income transfer programs to low income groups. They also nationalized a number of private enterprises which transferred state funds to the highest income groups. The net result was a rapid expansion driven by private consumption.

The forecast of a world economic recovery from the recession in 1981-82 failed to materialize. France was the only major industrialized country to pursue an expansionary policy. The result was that the demand for imports grew rapidly in France without any corresponding increase in French exports. The rest of the world eagerly turned its idle productive capacity

to meet expanding French demand. Eventually, France was forced to reverse its policy by cutting expenditures and curtailing expansion. And in 1983 and 1984, when the long anticipated world recovery finally materialized and other economies began once more to grow, the French economy stagnated.

Employment Policy

French employment policy under the Socialists consisted of some programs that reacted to demographic changes; other programs were designed to meet the new challenge of flexible specialization.

The Socialists sought to intervene directly in the labor market to alter the supply and demand of labor. In so doing, the Mitterand administration embarked on an active manpower policy which was more ambitious than anything ever attempted in the United States. The policy was conceived much more explicitly as an effort to reduce unemployment on a worker-by-worker or job-by-job basis. Each intervention was designed to remove so many workers from the labor market or create a certain number of jobs.

The major components of this policy and their estimated impact upon unemployment are presented in Table 1. The table also provides estimates of the impact of the general economic expansion upon employment. It suggests that the active manpower policy was more important in controlling the level of employment than general economic policy. This is of significance to policy makers in the United States where manpower policy has not generally been thought of as a major determinant of unemployment levels. The fact that French manpower policy was more significant than general economic policy in reducing unemployment was largely the unplanned result of the depressed economic environment in which the latter was forced to

Table 1. Impact of the 1981-82 Recovery Plan and of Manpower Policy on the Level of Unemployment (in millions of workers)

	1981	1982	1983
Demand Stimulus (minimum wage, loans, public expenditures)	-9	-36	-54
Public Employment Program			
Direct	-24	-97	-139
Indirect	-2	-8	-11
Reduction in Work Hours	---	-25	-25
Specific Manpower Programs[1]			
Subsidized employment creation[2]	-8	-21	-45
Youth Employment	-27	-55	-78
Classroom Training	-15	-10	-10
Lowering of Retirement Age & Early Retirement	-51	-119	-244
Others	-7	-17	-64
Indirect Effects	-4	-9	-16
Total	-147	-397	-686

[1] These extimates are based upon J.F. Colin, M. Elbaum & A.Fontineau, "Chomage et politique de l'emploi, 1981-83" *Observation et Diagnostics Economiques* No. 7 (Avril, 1984).

[2] By local governments and by unemployed with lump unemployment compensation.

operate.

Early Retirement

The largest job gains were achieved by the manipulation of retirement; the overall retirement age was lowered from 65 to 60, and the government contracted with private employers to subsidize the early retirement of employees 55 through 60 in return for guarantees that retired workers would be replaced. The latter proved very expensive; so expensive that it was abandoned in 1984. An even greater drawback is that over the

long run, it does not create jobs; it simply shifts the creation of jobs forward in time. It is in effect a way of borrowing job creation from the date when the workers would otherwise have retired.

Reduced Workweek

The French had hoped to achieve large employment gains by reducing the standard workweek from 40 to 39 hours and by adding a fifth week of mandated vacation. A direct translation into jobs by the reduction in the workweek alone would have increased employment by 2.5 percent or 533,000. In fact, a survey of employers suggested that almost no job gains were realized (roughly 25,000). Apparently, employers were operating with a large excess labor reserve. Over the long run, the net job creation may be much larger when output begins to expand and employers will have to hire sooner than they would have under the 40 hour workweek. The delayed employment effects of the workweek reduction could, moreover, come into play just in time to compensate for the perverse impact of the early retirement program upon future job creation. But in the long run, employers may also find capital, equipment, new organizational arrangements, etc., which may substitute for the jobs which they would otherwise have created.

Despite the disappointing results of the initial reduction in workweek, the policy retains a very strong attraction on the Left, and there is considerable pressure both from trade union officials and from manpower planners to reduce the workweek further. The policy has an underlying logic which flies in the face of the empirical results. It is one of the only policies which seems to hold out the promise of a significant reduction in unemployment. On the other hand, a reduction in the work week is another cost to employers. France has stopped adding payroll taxes, which had been increasing regularly in past years, and has actually cut some other business taxes. For the

time being, however, the workweek has moved to the background of the employment policy debate, and the focus has shifted to the issue of flexibility.

Flexibility

The flexibility debate concerns the freedom of employers to discharge workers for economic reasons. Most economic layoffs in France require the approval of the Ministry of Labor. That requirement dates from the immediate post-World War II period, but it was not often enforced prior to 1968. One result of the social unrest of that year was a tightening, first through negotiated settlements and then through legislation, of procedures for review and control of layoffs. The effective control, however, has varied some what over the post-1968 period. It generally increased from 1968 through 1975-76. But after 1976, the control was progressively relaxed as an increasingly conservative government permitted employers to extend a variety of practices which enable them to circumvent the law.

The most prominent of these were the increasing use of temporary help service and limited duration contracts. In many enterprises, these type of employment have become a permanent element of manpower management. Large enterprises also try to keep the more stable segment of production for themselves and assign those activities which are subject to greater fluctuations to their subcontractors. Thus, some large employers are able to offset the legislation protecting their employees from layoffs and their senority rights by using a more temporary work force or expanding their work activities to smaller subcontractors whose labor force is paid less and is less unionized.

Trade unions and the Left watched these developments with outrage. When the Socialists came to power in 1981, they moved immediately to tighten the administration of layoff controls and to curtail institutionalized forms of evasion. However, after the great wave of nationalization took place, which gave France the largest

state sector among industrialized countries outside the Communist world, the government was no longer willing to pay for the losses of state-owned companies. Nationalized industries were then allowed to fire thousands of workers to regain their fiscal health.

Employers have maintained that restrictions on layoffs inhibit employment expansion. If workers cannot be easily fired when they are no longer needed, employers have a disincentive to hire in the first place. The plausibility of this argument was strengthened by the failure of the reduced workweek to create jobs, which seemed both to indicate a substantial pool of excess labor already in French payrolls, and to suggest that the pool had been absorbed by the reduced hours so that employers would hire if they were not obligated to retain new workers. And with all other paths to job creation blocked, at least temporarily, flexibility has become increasingly attractive to the Socialists.

Given the Socialist Party's historic support for controls and the importance of controls to its trade union constituency, the government has nonetheless not wanted to relax controls unilaterally. Indeed, it has encouraged the employer association and the unions to negotiate a less stringent set of regulations. These negotiations collapsed in late 1984 apparently because union leaders were not able to obtain the support of the rank and file. The government is exerting pressure for their resumption, and it retains the power to impose a settlement through legislation, possibly in combination with further reductions in hours.

An important element in the debate about flexibility has been the European interpretation of American employers' ability to hire and fire workers at will. The Europeans credit this freedom with the enormous expansion of American employment in the last decade. During the past ten years the United States has created some 15 million new jobs while Europe has suffered a loss of about 1.5 million--even though both regions had comparable rates of economic growth.

The European picture of American employment institutions is greatly oversimplified and the attribution of the U.S.

employment expansion to it highly dubious. U.S. employers, it is true, have by and large retained freedom to hire and fire at will, but only by instituting in return procedures for the equitable distribution of job opportunities. These procedures, which depend heavily (although not exclusively) upon seniority, determine which workers the employer can lay off when the labor force is reduced and require the redistribution of the remaining jobs internally after the layoff has occurred. Their effect is to make such layoffs very expensive and thus to inhibit indirectly, by imposing costs, adjustments which the French inhibit administratively. The net effect of the American procedures may be less restrictive than the French procedures, but it is not at all clear that this is the case.

Moreover, in some parts of the U.S. economy--notably those affecting professional and managerial workers--there are customary restrictions to layoff and discharge which seem to operate in precisely the way French administrative control does. About one-third of the new jobs created in the U.S. during the period of European employment stagnation have been in the professional and managerial category. Again, it is not clear whether they have been in precisely those professional and managerial jobs where layoff restrictions prevail. In the absence of research on this question, the existence of these jobs does seriously undermine the force of the argument linking job creation and layoffs.

If the Europeans have idealized U.S. flexibility in layoffs, Americans have idealized European flexibility in internal work assignments. Indeed, the term flexibility in the U.S. discussions is reserved for flexibility in internal labor allocation. The superior European productivity performance in the last decade has been widely attributed by American analysts to this difference. Since foreign producers can transfer workers around at will, they are thought to be more adaptable to changing market conditions than American employers, whose job assignments are constrained by detailed job descriptions to

which wages and seniority rights are attached. Since the European internal flexibility seems to have been purchased by restricting layoffs and since their greater productivity gains may be the other side of the stagnant employment levels, the education of Americans about the reality of Europe would seem to be a worthwhile objective.

Entrepreneurship and Unemployment Benefits (Chomeurs Createurs)

France has pioneered in trying to infuse entrepreneurship into the economy without injuring the fabric of social welfare laws. Since 1980, newly unemployed French workers can elect to take up to a year's worth of unemployment benefits in a lump sum as seed captial for a business start-up. French workers who are laid off for economic reasons are guaranteed 90 percent of their last salary for one year. It was hoped that this "capitalization" from unemployment benefits would encourage and enable jobless workers to start their own business. The French government claims that the lump sum benefits may have accounted for about 30 to 40 percent of new businesses started between 1983 and 1985.

Under this program, a French citizen entitled to unemployment compensation or welfare can collect 30,000 francs ($3,420 as of July 19, 1985) in a lump sum to start a business. If the entrepreneur manages to create another job over and above his or her own, the money can be increased to 50,000 francs. The average lump sum allowance during 1982 and 1983 was $2,467. Program participants also receive health, maternity, accident, disability, and life insurance.

This program of Chomeurs Createurs pays out a uniform benefit irrespective of the unemployed worker's former earnings. Because of complaints of misuse of the funds, the government is now monitoring the program more closely, and business proposals are carefully scrutinized. The lump sum benefits are

now paid from general revenues rather than from the unemployment compensation fund.

As of December 1984, more than 170,000 unemployed have opted for the scheme. Although the bulk of the businesses started were in the service sector, the enterprises ranged from technology manufacturing to janitorial services. The government estimates that between 60 to 80 percent of the enterprises started under this program have survived three years.The former unemployed workers created an average of two jobs each; 27 percent created businesses with 100 or more jobs.

Youth Programs

France, like many other industrialized countries, has been particularly concerned about its youth unemployment problem. In June 1982, about 40 percent of the unemployed workers in France were under 25 years of age. In order to combat youth unemployment, the French had launched in 1977 the "youth unemployment pacts," which combine employment assistance measures (e.g., exemption from social security contributions) with training programs such as "introduction-to-work." The unemployed youths are in the program six to eight months, including several weeks of practical experience in an enterprise. Youths between 16 and 26 years of age were eligible for programs organized by public or private training institutions which were tailored to meet local employment needs.

Another program--avenir jeunes (Plan for the Future of Youth)--was launched in 1981-82. This plan distinguishes between two categories of training: entry-to-work training which was reserved for the most underprivileged youth and intended to help their integration into society; and job qualification training--primarily vocational training for immediate employment. About 15,000 young persons were provided entry-to-work training and 50,000 were given qualification training in 1981-82.

Another program was based on alternating work and training for young people between 17 and 26. These training-cum-employment contracts provide training from 120 to 1,200 hours organized by an employer or by an outside organization. Employers who take on this training obligation receive a subsidy for each hour of training. About 75,000 were in effect in 1982. Lasting jobs were found by 80-85 percent of the trainees; between 40 and 50 percent of them found a job in the occupation for which they trained.

All young persons between 16 and 18 are now provided training opportunities lasting from six to twelve months. Training posts are also being offered to young job seekers between 18 and 26 years of age. Since 1982 more than 600 guidance centers have been established and supported by local municipalities to provide intensive guidance. Some 60 of these centers are located in high youth unemployment areas and are equipped to assist young persons with many of their personal problems such as training, employment, housing, leisure, social and emotional adjustments.

Full-time education is much more important than apprenticeship in France. However, in more recent years, the government has been expanding apprenticeship programs. Between 1972 and 1980, the numbers of apprentices increased by more than 90 percent from 62,771 to 122,134. Since 1979 the central government has been paying all employer and worker social security contributions for apprentices working in establishments employing fewer than 11 workers. In 1980 the government introduced an apprenticeship tax to finance the premiums that skilled craftsmen receive for training apprentices.

The priority given in American apprenticeship to the social equity issue of female employment is not found in France. The proportion of females in French apprenticeship programs reflects the character of the natural apprenticeship system as much as the effort to bring women into this type of training. The inclusion of some female-intensive occupations in the apprentice-

ship system increases the proportion of these women. In 1978, 2.2 percent of U.S. apprentices were female, against 23 percent in France.

Adult Programs

The French adult continuous training programs reflect the concern to create an adaptable work force capable of performing jobs in flexible specialization developing in the goods-producing and service sectors of the economy. The responsibility for continuing training rests with both the government and private employers. The state finances continuous training programs, and employers are required to contribute at least 1.1 percent of their wage bill to training expenses. If they fail to meet this obligation they are required to pay the Treasury the difference between this minimum payment and training expenses. Most of the training provided under this program is directed toward further training and adaptation to technological innovations.

Unemployed job seekers who cannot meet the requirements for certain jobs can take training courses created by the National Employment Agency. Employers who participate in this government sponsored training-cum-employment program are expected to reserve jobs for the unemployed who are being trained.

Both the central government and local communities offer free social advancement courses which are usually given in the evening or on Saturdays. The courses are usually given by public institutions operating under the Ministry of National Education. About 510,000 persons participated in these courses in 1980.

The French government offers retraining programs and specific upgrading courses for the employees and companies that are introducing new technologies. If the jobs of the employees are in danger, the government will partially reimburse employers for their training expenses.

The shortage of workers with skills in the field of EDP and information technology has prompted the government to offer initial and continuous training for engineers and technicians. Two government agencies--the Agency for the Development of Information Technology (ADI) and the Agency For the Development of Automation (ADEPA) have collaborated in establishing courses for engineers and technicians.

The French government is actively engaged with the private sector in orienting management development courses. The Ministry of National Education, the Ministry of Vocational Training, and the Ministries of Research and Industry and of Commerce work with employers and chambers of commerce to improve management training.

Because of the important economic role played by small entrepreneurs in France, the training of these managers has been emphasized in recent years. More than 16 percent of the French labor force was self-employed in 1983 as compared with 9 percent in the United States. The National Foundation for Management Education assists training institutions by diagnosing their organizational problems and strengthening their links with business enterprises.

About 30 percent of all private sector training budgets in France is devoted to management training. University institutes, private institutions and establishments, run by the chambers of commerce and industry, offer continuous training in management through training institutions, consultants, and training services within establishments.

Evaluation of French Labor Market Policies

The French economy is undergoing some major structural changes which are challanging this country's labor market policies. Although some of the French labor market programs are directed toward the creation of a labor force that will operate more effectively under flexible specialization, others appear to

be more relevant to economic problems of the past. The political and economic strength of the French labor unions, which have shaped some of the government's past labor market policies, will probably play a part in any new proposed labor market policies.

Programs designed to take the older workers out of the labor force so that job vacancies would be created have apparently not met with any resounding success. Neither has the reduced workweek led to employment stimulation. Rigidities in the labor market which control layoffs may have contributed to disincentives to hire. The efforts of employers to circumvent labor market rigidities by making greater use of temporary help and limited duration contracts is occurring at the same time that French job seekers are striving for more stable employment.

The use of unemployment benefits as seed capital for entrepreneurs certainly deserves assessment by American policymakers. Even though most U.S. enterprises are started with capital from the owners' personal savings and "FFA" network (Friends, Families, and Associates), any boost to the engine of entrepreneurship that drives our economy should be explored.

French youth programs have received the same criticism as the American effort. Students of French labor market policies have noted the temporary nature of the programs, instability in the level of support and their lack of success in bringing young workers into the primary labor market of stable jobs. The United States has never used the apprenticeship system as a youth program. Apparently, the French government is using the system both as a youth employment program and as a training program to raise the skill level of its labor force.

The French government is following an active labor market policy which is concerned with the ability of its labor force to adjust to technological changes affecting the work place. Its effort in continuing training and its active support for the training of technicians and engineers offers a model for

consideration by U.S. policymakers. In more recent years, the U.S. has followed a non-intervention policy which depends on individuals, employers, and the labor market to determine adjustments to new and different labor market demands. The final chapter on which method is best is yet to be written.

The effectiveness of the Socialist government's efforts to spur economic growth and employment through nationalization is now being questioned. The nationalized sector of the French economy is running a deficit of 35 billion francs ($4.2 billion in 1984). The Mitterand administration is now considering the possibility of turning over some nationalized activities to private companies.

If the conservatives were to win the parliamentary elections in the spring of 1986, the denationalization process may move into high gear. The dismantling of the Socialists' nationalization program, which gave France the largest state sector among industrialized countries outside the Communist world, could create an economic shock leading to a rise in unemployment. Until, however, a new economic program is delineated and implemented it will be difficult to project its impact upon employment. If a new government were to follow a policy of spending cuts, austerity, and the sale of nationalized industries which would lead to increased unemployment, it would probably face considerably more difficulties than Mr. Reagan did. The more unionized and aggressive French labor movement would probably not passively tolerate permanently higher unemployment levels.

Labor Market Policy Measures in Australia: Recent Changes

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Introduction

Since the mid-1970's Australia's governments have intervened increasingly in the operation of the labor market through programs often similar to those developed in Europe and North America since the late 1950's. The programs have been in a continual state of flux, with frequent changes to the overall mix, priorities and program features. Much of this has been unavoidable and represents a learning of the difficulties involved in overcoming the problems these programs are meant to address.

In 1983 the Australian government appointed a Committee of Inquiry to examine labor market policy and programs and to recommend improvements. Their report became public in February 1985 and has had a profound influence on the future direction of labor market policy in Australia. The government accepted the major recommendations and set in motion a number of changes to come into effect in 1986.

Past experience provides a great deal of value in assessing labor market programs. In this context it is useful for the United States to analyze Australia's experiences and for Australia to analyze that of the United States. The aim here is to look at the Australian experience, paying particular attention to the shifts arising from the recent review. This concludes with some observations on the lessons learned from Australia's experience.

Major Developments in the Labor Market Since 1970

For more than a decade Australia has struggled with severe labor market problems. Between 1970 and 1985 the working population and the labor force grew by 2.3 percent, but employment lagged at only 1.4 percent. The reason for this is shown in Table 1. In the second half of the 1970's economic performance deteriorated. In particular, real GNP growth plummeted, and this led to rising unemployment. The most disturbing aspect has been the rapidity of the rise in unemployment. The unemployment rate was 1.4 percent in 1970, 4.6 percent in 1975, 5.9 percent in 1980, 9.9 percent in 1983, and just over 8.0 percent by the mid-1980's. The average duration of unemployment increased dramatically from 7.3 weeks in 1970 to 45.5 weeks in 1984, and by 1984 over half of all the jobless were unemployed for six months or more. The number of discouraged workers and those who were willing to work but were jobless also rose alarmingly.[1]

Australia's labor market performance since 1975 has been

Table 1. Macro Indicators, 1970 to 1984

Average annual growth in real GDP (percent)	1970-1975	3.5
	1976-1982	1.9
	1984	4.6
Average annual inflation rate (percentage increase in the Consumer Price Index)	1970-1975	10.2
	1976-1983	10.2
	1984	6.9
Average annual growth in aggregate employment (percent)	1970-1975	1.6
	1976-1983	0.8
	1984	3.2
Average annual unemployment rate (percent)	1970-1975	2.4
	1976-1983	6.3
	1984	8.6

much worse than in many other economies. This can be seen in Table 2. The contrast between Australia and Canada, Japan, Sweden, the United States and West Germany is dramatic. Participation rates declined between 1975 and 1984; underlying this were large declines in employment relative to population growth and hefty increases in the unemployment-population ratio. By contrast, the United States experienced a large increase in the participation rate and underlying this was a strong growth in the employment ratio and a small decline in the unemployment-population ratio.

A comparision of participation rates and employment ratios by demographic groups also confirms Australia's poor performance. Withdrawals in the male labor force, particularly among older males, and small increases in female participation rates occurred. By contrast, more modest falls in male, and enormous increases in female, participation rates occurred in Sweden, the United States and Canada and to a lesser extent in Japan. Again these changes suggest substantial increases in unemployment, both recorded and hidden, since the mid-1970's.

Historical Development of Australian Labor Market Programs

An inevitable consequence of deterioration in the labor market was increased intervention. At least four phases have occurred in the development of the current mix of programs. A new fifth phase is about to begin in 1986 as a result of a major reappraisal of labor market policy and programs.

In the first phase of development the approach could best be described as laissez faire. Prior to 1973-74 small expenditures mainly targetted disadvantaged groups. For instance, in 1972 only 2,155 participants were involved in all programs. In 1973 the government began to introduce a series of new labor market programs. The initial impetus was given by the perceived need

Table 2. Labor Force and Employment Rate Changes for Selected Countries: 1975-1984 [1]

Country and Sex	Labor Force participation rate		Employment/population ratio		Percentage point change in the	
	1975	1984	1975	1984	Labor force participation rate	Employment population ratio
Persons						
Australia	61.6	64.9	58.8	54.8	1.7	4.0
Canada	61.1	64.8	57.4	54.2	0.5	3.2
Japan	63.0	63.5	62.0	61.9	0.5	-0.1
Sweden	69.6	71.9	68.5	69.6	2.3	1.1
United States	61.2	64.4	56.1	59.5	3.2	3.4
West Germany	55.5	55.6	53.6	51.6	0.1	2.0
Males						
Australia	80.5	75.7	77.7	69.1	-4.8	8.6
Canada	78.4	76.6	73.5	68.0	-1.8	5.5
Japan	81.4	78.4	79.8	76.8	-2.5	-3.0
Sweden	80.0	76.3	78.9	74.0	-3.7	4.9
United States	77.4	76.4	71.7	70.7	-1.5	1.0
West Germany	74.5	71.9	75.2	72.1	-2.6	4.7
Females						
Australia	43.0	44.6	40.3	40.9	1.6	0.6
Canada	44.4	53.5	40.8	47.3	9.1	6.5
Japan	45.7	49.0	45.0	47.6	3.3	2.6
Sweden	59.2	67.5	58.0	65.3	8.3	7.3
United States	46.3	53.6	42.0	49.5	7.3	7.5
West Germany	36.8	41.0	37.4	37.5	2.2	0.1

[1] Refers to annual average data in Canada, Sweden, the United States, and Japan (except in 1984 where an 11 month average is used). The data for Australia refers to the August Survey. The Microcensus was used for West Germany. All data were collected in labor force surveys conforming to ILO concepts and definitions.

[2] The latest data available for Germany were used which refers to 1983.

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to compensate those unduly affected by adjustment to an across-the-board tariff cut of 25 percent. The short-lived Structural Adjustment Assistance (SAA) scheme was introduced to maintain a person's income at the level of the previous six months if that person became unemployed. Expenditures increased enormously and the scheme was phased out in 1976.

The National Apprenticeship Assistance Scheme (NAAS) was also introduced in 1973 in response to shortages of skilled workers. It was a major trade-training initiative and provided subsidies to employers and living-away-from-home allowances to apprentices. The scheme was superceded in 1977 by the Commonwealth Rebate for Apprentice Full-Time Training Scheme (CRAFT).

In late 1974 the Regional Employment Development Scheme (REDS) and the National Employment and Training Scheme (NEAT) were introduced. The former was a major initiative in the area of job creation aimed at providing employment through grants to local government, and in July 1975, some 32,000 people were in this program alone. Expenditures peaked in 1974-75, and it was phased out by 1977. NEAT replaced the earlier training and employment schemes targeted toward specific groups and aimed at providing financial assistance for both formal and vocational education and on-the-job training.

From 1976-77 a second change in direction occurred. Job creation schemes faded and for all intents and purposes, NEAT was dropped. Instead the emphasis shifted to a range of programs which were nearly all directed to young people. These were the Special Youth Employment Training Program (SYETP), the Community Youth Support Scheme (CYSS), the Education Program for Unemployed Youth (EPUY) and the School to Work Transition Program (SWTP).

In the 1980's a further shift occurred with the introduction of an Adult Wage Subsidy Scheme (AWSS), a program specifically

for long-term unemployed adults, and the Labour Adjustment Training Arrangements (LATA), a program specifically for retraining redundant workers (again predominately adult). However, the early 1980's also saw a strong shift back to job creation schemes. This began at the end of 1982 with the Wage Pause Program (JWPP) and continued with the Community Employment Program (CEP). By 1983-84 over 50,000 jobs of six months duration were involved, and expenditures exceeded those on all other labor market programs.

A perspective of how the development of Australia's labor market programs compares with selected other countries, including the United States, is given in Figure 1. Clearly the 1970's and 1980's have witnessed major shifts in labor market intervention in Australia and most countries, but not always in the same direction. In Australia there was a large shift away from job creation programs in the second half of the 1970's, but by 1982-83 a significant shift back to job creation programs occurred. This appears to differ from recent developments in the United States.

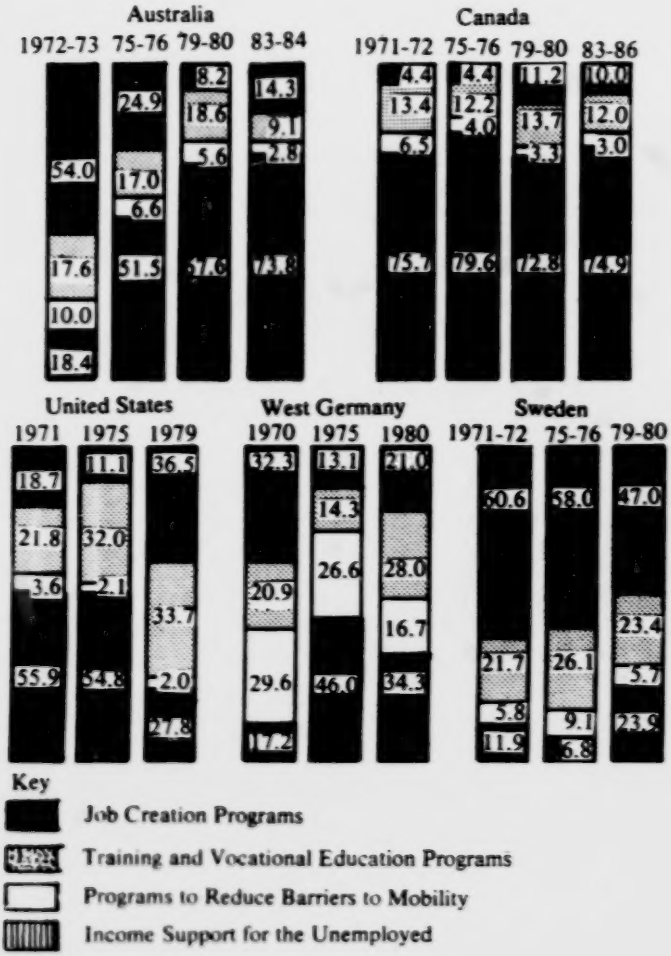
The Current Programs

Given the rapidity of the rise in unemployment noted earlier, there was always the risk that programs would become ad hoc responses to immediate problems, lacking direction and producing questionable results over the long term. To some extent this occurred in Australia, and this led the Committee of Inquiry to recommend a number of changes that would rationalize the programs and achieve a greater degree of coordination across programs.

The Committee's recommendations were guided by two principles. They felt that the single objective of labor market policy should be to enhance the knowledge, skills and long-term prospects of the individual. They also came to the view that open access to structured and recognized training for all groups,

Figure 1

Expenditures on Different Types of Labor Market Programs as a Percentage of Expenditure on All Programs and Income Support of the Unemployed in Australia, Canada, Sweden, United States and West Germany in Selected Years



the young and not so young, females and males, is a realistic goal for the next decade.

Changes in the budget for 1985-86, as set out in Table 3, clearly show that at least a greater emphasis will be given to training in the years to come. However, the nature of the programs has also been changed, in some cases considerably, with old programs being integrated into new. All of these

Table 3. Expenditures on All Programs 1984-85 and 1985-86

Program	1984-85 ($000)	1985-86 ($000 est.)
Educational and Vocational Training		
-Trade Training	116.7	117.6
-Vocational Training	21.4	38.7
-Adult Training and Retraining	18.1	24.6
-Industry Training Services	8.6	12.0
-Community Based Programs	32.5	44.3
Special Groups	54.9	61.5
	252.2	298.7
Job Creation and Wage Subsidy Programs		
-Community Employment Program	405.5	290.0
-Employment Incentive (Wage Subsidy) Program	144.4	142.0
-New Enterprise Incentive Scheme	----	3.6
-Steel Regions Assistance	3.2	0.6
	552.1	436.2
Programs to Reduce Barriers to Mobility		
-Mobility Assistance	3.5	4.1
-Placement and Information Services	2.9	2.6
	9.6	7.3

changes have occurred in the training and job creation areas and are discussed in turn below.

Educational and Vocational Training Programs

This section describes the main features of Australia's current (1985) training programs and how these will change in 1986. The aim of the changes has been, first, to redistribute resources more equitably in a way that is readily understood by the unemployed, employers and program managers and secondly, to provide a greater emphasis on training for the young.

There are 14 existing programs and two new programs to be introduced in 1986 that can broadly be called Education and Training Programs. These programs fall under the umbrella of Trade Training Programs, Vocational Training Programs for the Young, Adult Training Programs, and Community Based and Special Group Programs.

Trade Training Programs have always been an important component of labor market policy in Australia. Apart from expenditures on job creation, trade training expenditures are the major item of the labor market budget. They are also important as the major provider of employment and training opportunities for the young. The Australian apprenticeship system has provided these opportunities to about 20 percent of all school leavers, 35 percent of all male school leavers, and 4 percent of female school leavers. This scale of apprenticeship is surpassed only by the German speaking countries and Denmark.

Another perspective of how important trade training programs are can be gained from a comparison of the yearly intake in trade training in Australia and the United States. Over the past decade the average intake of new apprentices has been 43,000 in Australia. This figure, when compared to roughly 40,000 in the United States, indicates that there is a major difference in the training approach of the two countries.

Support for trade training is provided through a number of programs. Expenditures on each of these programs in 1984-85 and as proposed for 1985-86 are shown in Table 4. The major program is the Commonwealth Rebate for Apprenticeship Full-Time Training (CRAFT) Scheme. This program provides three types of rebates to employers to compensate for some of the costs associated with the employment and training of apprentices and also provides a living-away-from-home allowance for apprentices. The Technical Education Rebate is payable to offset the costs from releasing apprentices for the technical education component of a trade course and are set according to the trade concerned, the year of apprenticeship, and stage of technical education.[3] Off-The-Job Training Rebates are payable for the release of apprentices to attend full-time instruction at the employer's own or other industry training centers--generally in the first year of apprenticeship. A Pre-Vocational Graduate Employment Rebate is paid to employers who engage an apprentice who has completed an approved trade-based pre-employment course provided an exemption from at least one stage of technical education and a reduction of at least six months in the apprenticeship is obtained.[4] Taxable living-away-from-home allowances are also provided to apprentices, when there is the need.[5]

The Committee of Inquiry did not propose to radically change CRAFT, either in level or coverage, and as evident in Table 4, little overall change has occurred.[6]

The Special Apprentice Training Scheme encompasses a number of programs designed to complement traditional apprenticeship training and reduce wastage. Under the Group One Year Apprenticeship Scheme, apprentices to full-time private employers receive full-time first year training using spare training capacity in federal or state government instrumentalities. The costs are met in full by the federal government. The Special Assistance Program aims to reduce wastage of apprentices by providing wage subsidies--up to 17 weeks--to an

employer of an apprentice at risk of retrenchment due to economic conditions and for 26 weeks to employers who engage and reindenture retrenched apprentices. An allowance is also provided to out-of-trade apprentices to allow completion of basic trade courses and/or practical off-the-job training.[7] The Special Trade Training Program aims at developing new complementary approaches to traditional apprentice training by providing assistance to state governments to provide pre-employment trade based courses and assistance to mature age apprentices.

Under the Group Apprenticeship Support Program, assistance is provided to offset the administrative costs of the establishment of a group apprentice project where apprentices

Table 4. Expenditures on Trade Training Programs: 1984-85 and 1985-86

Program	1984-85 ($000)	1985-86 ($000 est.)
Commonwealth Rebate for Full-Time Training		
-Employer Rebates		
Technical Education Rebate	65,105	73,900
Off-the-Job Training Rebate	11,616	15,700
Pre-Vocational Graduate Employment Rebate	615	1,800
Special Additional Employment Incentive	16,479	452
-Apprentice Assistance (living-away-from-home allowances)	5,547	6,148
	99,362	98,000
Special Apprentice Training		
-Group One Year Apprentice	1,824	1,942
-Special Assistance Program	5,391	4,766
-Special Trade Training Program	9,450	11,811
-Group Apprenticeship Support Program	671	1,081
	17,336	19,600

are indentured to a central body, such as an employment organization or training company formed for this prupose by industry or local government. Apprentices from the group are then leased, on a rotational basis, to participating employers.[8]

Vocational Training programs bear a closer resemblance to Title IIA programs under the JTPA, but they have received far less attention in the past than has the trade training area. However, this is an area where Australia's labor market policy is about to undergo a fundamental change. As a result of the review by the Committee of Inquiry, Australia now has the long-term objective of establishing a new system of quality vocational training for those young people who do not go on to higher education, technical or trade training. It intends to establish a system of traineeships, based on the German model, to consist of a mix of on- and off-the-job training, incorporating work based training built around part-time employment, either with a single employer or in a group training arrangement, and training off-the-job in the Technical and Further Education system. The range of training will include a basic education element, initial training for broad vocational areas, and job specific training leading to recognized accredited qualifications. The minimum training period is one year, quite long by comparison to non-trade training in most countries, and very much longer than the average for either the JTPA or the defunct CETA programs in the United States. At least 13 weeks of off-the-job training will be required; this compares well with the off-the-job component of apprenticeship, which ranges from 4 to 32 weeks. The scheme will not be based on wage subsidies, unlike other countries where on-the-job training wages have been subsidized at rates of up to 50 percent. Nor will training allowances be paid. The underlying principle is that employers should make a contribution to the future work force and that an industrially determined wage will ensure that more attention is given to the nature of the work undertaken when the trainee is on the job. Similarly, it is reasonable to expect trainees to contribute

to the costs through foregone income.[9] Employers, however, will receive a lump sum payment of $1,000 a trainee or $2,000 in the case of a disadvantaged trainee.

Initially, traineeships will be available to 16 to 17 year old school leavers, particularly those who have not completed year 12 of secondary school. This target group includes both the employed and the unemployed, and this recognizes that many jobs for young people offer unstable employment and few training opportunities. A target of 10,000 is aimed for by mid-1986, to rise progressively to 75,000 by 1989. This will nearly double the number of training opportunities provided by the apprenticeship system and substantially reduce youth unemployment.

The introduction of the Traineeship program will almost double expenditures in this area by supplementing expenditures on the existing programs--The Transition Allowance, The Experimental Training Project and the Pre-Apprenticeship Programs. Expenditures on these programs are shown for 1984-85 and 1985-86 in Table 5.

The largest of the existing programs is the Transition Allowance program, which provides an allowance to trainees for pre-employment education based training.[10] Expenditures on this program will change little in 1986.

The Experimental Training Projects program is much

Table 5. Expenditures on Vocational Training Programs: 1984-85 and 1985-86

Program	1984-85 ($000)	1985-86 ($000 est.)
Australian Traineeship System	---	15,700
Transition Allowance	16,121	15,571
Experimental Training Projects	1,807	2,329
Pre-Apprenticeship Allowance	3,466	5,100
	21,394	38,700

smaller. It provides financial assistance to appropriate training institutions, employer and industry associations, and established community groups to develop and conduct innovative short-term, small scale or specialized post-school training arrangements to meet local labor market needs. The projects are directed toward benefiting 15- to 25-year olds who have been away from full-time education for the last 12 months and unemployed for 4 months. Preference is given to those unemployed at least 8 months and to other disadvantaged people, e.g. young women, migrants, and those in rural areas. Trainees under this program receive the Transition Allowance. Expenditures on this program are expanding to fund off-the-job training for piloting the traineeships. Ultimately it will be absorbed into the Traineeship system.

The remaining program, the Pre-Apprenticeship Allowance, provides an allowance that is payable to students attending approved trade-based pre-employment courses.[11] This allowance, however, remains pending a review of all income measures for young people.

Adult Training and Retraining Programs are to assume much more importance in the coming years. Changes to the occupational and industrial mix of employment, the changed nature of skills demanded in employment, and the narrowing of boundaries between occupations mean that further training and increased retraining opportunities for adults will be necessary in the future. In 1986 a new Adult Training Program will incorporate and expand upon the existing array of programs--the Labour Adjustment Training Arrangements (LATA) Program, Skills in Demand (SID) Program, and the General Training Assistance (GTA) Program.

The new Adult Training and Retraining Program is a major response to another recommendation from the Committee of Inquiry into Labour Market Programs who recognized that the training and retraining needs of adults were the most neglected

by the existing labor market programs. As illustrated in Table 6, the new program represents a 36 percent increase on 1984-85 expenditures in this area.

Although LATA is to be incorporated into the Adult Training and Retraining Program, it will be retained as a separate entity with its current provisions. LATA was introduced late in 1982 in recognition of the special difficulties experienced by workers displaced as part of structural adjustment. Displaced workers in designated industries and regions are given assistance to upgrade, update and broaden their skills to enhance their employment prospects. Training is provided in both government and private educational institutions and in industry training facilities. An income tested training allowance is provided.[12]

The Skills in Demand and the Industry Training Services Programs provide assistance to the industry to establish new or improved training arrangements. The focus of the former was on occupations with skill shortages, while the latter applied to all sectors of industry and commerce.

General Training Assistance (GTA) has been provided for

Table 6. Expenditures on Adult Training and Retraining Programs: 1984-85 and 1985-86

Program	1984-85 ($000)	1985-86 ($000 est.)
Labour Adjustment Training	9,670	10,700
Skills in Demand	3,092	4,509
General Training Assistance		
-Formal	4,473	3,200
-On-the-Job	848	600
FRSVT	11	15
Adult Training and Retraining	—	5,591
	18,094	24,615

persons with labor market experience, either through training allowances for those undertaking formal courses or subsidies to employers to provide on-the-job training.[13, 14] Compulsory fees are paid for trainees, and a book and equipment allowance of up to $375 a year is provided. Living-away-from-home and moving allowances may also be provided depending on circumstances.

Community Based Programs are used to reach the most disadvantaged groups in the labor market. Experience indicates that community organizations in most cases provide flexible programs tailored to individual needs; provide more personal support before, during and after program participation; and can attract a greater range of experience and expertise from the community than is usually the case with government agencies. This is very attractive to many disadvantaged people who, for whatever reasons, do not or cannot adjust quickly to more formal situations in educational institutions or the more bureaucratic approaches of government bodies.

No simple models exist to describe programs in this category. Some provide highly structured programs that offer skills training and personal and social development that allow participants to move directly into stable employment. Others act as a medium into mainstream programs.

Expenditures on these programs in 1984-85 and proposed for 1985-86 are set out in Table 7. The largest program is the Community Youth Support Scheme (CYSS), which is meant to encourage communities to assist local unemployed youth to develop their capacity to obtain and retain employment and become more self reliant during periods of unemployment. A wide range of activities and services are provided including drop-in facilities, advice and referral, social and emotional support, training in job-related skills, work preparation advice (e.g., on work habits, interview techniques, etc.), and voluntary community services. Participants retain unemployment benefit

Table 7. Expenitures on Community Based and Special Groups Programs: 1984-85 and 1985-86

Program	1984-85 ($000)	1985-86 ($000 est.)
Community Based		
-Community Youth Support Scheme	26,056	32,000
-Community Based Labour Market Program		
Community Youth Special Projects	3,342	5,280
Volunteer Youth Program	529	1,020
Work Preparation Program	2,594	3,280
Locally Based Community Projects	----	2,300
Information Technology Centres	----	400
	32,521	44,280
Special Groups		
-Other Assistance for the Disabled	1,439	2,620
-Training for Aborigines	53,356	58,500
	54,995	61,120

entitlements and can also receive reimbursement of transport costs to and from project activities.

The second largest program, the Community Youth Special Projects, developed from the earlier NEAT Special Projects and until 1982, it had no guidelines other than that funds were to be used for innovative community-based projects for youth. It became difficult to cut off funding despite objections from bureaucrats, largely because of political considerations. In 1982 firm guidelines were established requiring demonstration that projects had the capacity to provide the equivalent of a full-time technical and further education course.

The Volunteer Youth Program was introduced in 1979 as a pilot program to test the use of voluntary (unpaid) community

service in maintaining and developing the capacity of unemployed youth to retain employment. Every effort is made to match young people's work aspirations with their voluntary work placements, to give them useful and relevant work experience, and contact with potential employers. Grants are made to community organizations to assist in the operation of projects. Program participants retain their unemployment benefit.

The Work Preparation project commenced in 1981-82 as a pilot program for disabled persons. It is designed to assist only those disabled who are assessed as having the potential to gain employment but who are unlikely to achieve it without a preliminary period of assistance. The projects are conducted by community agencies under federal funding, on a fee for service basis.[15]

The Community Based Labour Market Program is to be introduced in January 1986 and, arising from recommendations from the Committee of Inquiry into Labour Market Programs, it will incorporate the Community Youth Special Projects (CYSP),the Volunteer Youth Program (VYP), and Work Preparation Program (WPP). It will also introduce two new programs, the Locally Based Community Projects and Information Technology Centres.

One of the major criticisms of the current programs is that they are isolated from each other, highly centralized in their operation, and removed from other government related activities. They also do not provide equal access for males and females; nor do they cater to disadvantaged groups other than youth. Few details are available about the new Community Based Labour Market Program, but it will adopt the principles of equal access for males and females, cost sharing, and a capacity for controlled experiment.

The Special Groups (Assistance to the Disabled and Training for Aborigines) Programs provides other assistance to

the disabled and to aboriginals, including training allowances and wage subsidies to employers. Expenditures on these programs are small (see Table 7).

Job Creation Programs

Job Creation Programs have in recent years become the main expenditure item in the labor market budget. The major program is the Community Employment Program (CEP). Its purpose is to provide worthwhile short-term work experience to unemployed people with the aim of improving their employment prospects in the general labor market. The target groups are those particularly disadvantaged, such as the long-term unemployed, migrants, aborigines, and disabled people. The bulk of the program is jointly administered at federal and state levels, but local government authorities, community groups and government departments sponsor the job creation projects.

One of the major strengths of the CEP programs has been the flexibility in its guidelines.[16] A great diversity of projects have been funded under the CEP, yet it has gone a long way toward meeting the overall objectives.

The other major item in the job creation category is the wage subsidy programs. These programs have been widely criticized because of lack of clarity in their objectives and because wage subsidies are seen as having little value in either improving longer term prospects for employment or in creating jobs.[17] Increasingly, these programs have come to be seen simply as a means of improving the access to employment of persons who, because of long-term unemployment disability, ethnic origin, or other personal characteristics, are not able to compete in the labor market on an equal basis.

Four wage subsidy schemes exist. The largest program in terms of numbers and expenditures is the Special Youth Employment program (SYEPT). Three components to SYEPT exist. Under Standard SYEPT, wage subsidies are paid to

employers for 17 weeks but apply only to the employment of those who have been unemployed at least 4 months and away from full-time education for 12 months.[18] Extended SYEPT also provides subsidies, but for 34 weeks. The target group is 18- to 24-year olds who have been unemployed and away from full-time education for at least 8 of the 12 months. Employers must provide full-time employment and pay at least the award rate of pay to qualify for the subsidy under either SYEPT. The third component is the Commonwealth Work Experience Program. In this program young people are provided work in federal departments and instrumentalities at award rates of pay and at full cost to the department or instrumentality.

The second largest subsidy program is directed toward adults. The Adult Wage Subsidy Scheme (AWSS) provides subsidies for 34 weeks under the standard scheme and up to 52 weeks under the extended scheme. The target group is adults aged 25 and over, but the extended program applies only to those aged 45 and over. To be eligible, job seekers must have been unemployed and away from full-time education at least 8 months in the last 12.

Wage subsidies are also paid to buy jobs for those who experience particular difficulties because of social, cultural or other personal factors--e.g., non-English speaking migrants, ex-prisoners, homeless people, refugees, wards of state, and single parents. Another program is targeted to the disabled.

One of the problems with the wage subsidy programs has been that no coherent overall strategy has existed. The programs vary in eligibility criteria, rates and lengths of subsidies, and in their emphasis. With no overall framework competition grew between the different schemes, with the more financially attractive ones increasing their penetration, and hence the access to employment of their target groups at the expense of others. This led the Committee of Inquiry to recommend rationalization of the wage subsidy program.

In 1986 the new Integrated Wage Subsidy Program will

replace the individual wage subsidy programs. Hopefully it will provide more equitable, effective, and targeted assistance, especially to the most disadvantaged, across all age groups. The new program will provide subsidies for 26 weeks. To be eligible, participants must have been unemployed for 6 months, but this will be waived in the case of disabled and special-needs clients. The subsidies will vary according to the degree of disadvantage and the length of unemployment of the participant. Subsidies will also be payable on a pro-rata basis in respect of part-time employment in excess of 20 hours with the emphasis on special needs and disabled clients.

Another change in the area of job creation schemes is the introduction of the New Enterprise Incentive Scheme (NEIS), which is intended to help the unemployed establish their own small businesses. It has been introduced as a pilot program and in 1985-86 it will offer income support, training assistance and appropriate start-up finance to 600 people.[19] The Scheme is being introduced progressively on a joint basis with the states which have, or are about to, offer unemployed persons establishment capital and access to business advice. The federal government will provide training in small business skills to approved individuals through the Skills in Demand Program. The viability of applicants' proposals will be assessed by an advisory committee, which will include small business experts and representatives from state and federal governments.

Schemes similar to NEIS are operating successfully in other countries, including France, Belgium and the United Kingdom. Evaluation of the scheme in France and the United Kingdom has shown that around 80 percent of small businesses established under the schemes were still in operation after the first year of receiving government assistance. Both countries have substantially expanded their initial programs. Expansion of the Australian Scheme, however will not occur before an evaluation of the pilot program in 1986.

Who Do the Programs Serve

Females fared poorly in terms of access to the whole range of labor market programs. As an example, in 1983-84 the percentage of female approvals ranged from 48.3 percent in Community Youth Special Projects (CYSP) to 1.6 percent in Labour Adjustment Training Arrangements Scheme (LATA). The only exception was the Volunteer Youth Program (VYP), in which females made up 66.9 percent of approvals. The lowest approval rates were in programs such as LATA (1.6 percent), The Special Assistance Program (5.2 percent) and CRAFT (8.4 percent). This is attributed to structure of these programs, which are directed to traditionally male industries. The high rate of female participation in the VYP reflects the degree to which volunteerism is dependent on women. In other programs approvals were higher, but in most instances well below 50 percent. The overall approval rate for all programs was only 36.9 percent.

The emphasis on young people is also clear from approval figures for 1983-84. Some 57 percent of approvals for all programs were for teenagers, with a further 25 percent going to young people aged 20 to 24. Older workers accounted for only a small proportion of approvals in 1983-84. Those aged 45 to 54 and 55 years and over accounted for only 2.5 percent and 0.8 percent respectively of program approvals. Even in programs such as the AWSS and LATA, participation of older workers was relatively small.

One of the most important conclusions made by the Committee of Inquiry was that access to the programs was not always equitable. The Committee did not favor the notion of a series of labor market programs for which eligibility is determined exclusively on sex, age, ethnicity or disability unless particular problems are exclusively limited to the members of any one group.

Where the old programs have been integrated into new

programs, one of the aims was to provide access to all disadvantaged groups. Many of the programs now aim for 50 percent participation for women.

Some practical problems will hinder the achievement of these goals. For instance, it is difficult to see the early achievement of a 50 percent target for women in trade training when only 10 percent of apprenticeships are currently held by women. Nevertheless, the notion of equitable targeting is now more firmly entrenched in all labor market programs.

What Are the Major Lessons

Many lessons have been learned from our experience with labor market programs since the mid-1970's, but most can be summarized into five main points. First, we have come to the view that labor market programs by themselves are not a panacea for high unemployment. This has always been the case and always will be no matter how extensive or coordinated the programs might be. Macroeconomic policies have a far more significant influence on the demand for labor, and the solution to unemployment is the restoration of a healthy economy.

Second, labor market policy does have a very significant role. Ultimately one objective of all the programs, either implicitly or explicitly, is to enable all participants to achieve their desired level of involvement in the labor market. For most this would be a permanent full-time job, but for others it would be access to a more highly skilled occupation, or higher paid jobs, or jobs with a career structure and thus opportunities for advancement. The problems in the past have been that a comprehensive approach has not always been taken and that all the disadvantaged have not necessarily had equal access.

Third, we have learned that it is desirable for pilot programs to be carried out prior to full implementation of a program. Pilots provide information on the feasibility of hitting specified target groups, in achieving constructive employer involvement,

and of enhancing the employability of program participants. They are particularly useful where programs are costly or their effectiveness is difficult to anticipate.

Fourth, the available evidence gives us little cause for optimism that wage subsidy programs improve the employability of youth or result in any appreciable job gain. There is no discernable difference in employment outcome between those who complete their subsidy period and are not retained by their employers, and those who leave or are dismissed by their employers. Those who are retained by their employers have a better post-program employment record, but these disproportionately comprise placements which employers say they would have made even if no subsidy had been available. It is important to realize, therefore, that wage subsidies at best can buy jobs for the disadvantaged.

Finally, we have also learned that a process of planning and review is critical to the increased effectiveness of labor market policy. The cumbersome and unresponsive decision making process was the subject of much criticism heard by the Committee of Inquiry into Labor Market Programs. As a consequence, the Committee sought the establishment of a more adaptive and flexible approach to program administration and delivery.

Footnotes

[1]See McMahon and Robinson (1984).

[2]Excluded from this category are work experience programs. The reader should be aware that some of what has been characterized as training in some programs may not be what we would typically consider to be training. An example is the Special Youth Employment and Training Program (SYETP) which is a wage subsidy scheme and has not a formal training component.

[3]In 1985 these rebates ranged from $22.80 to $44.60 a week.

[4]The value of the current rebate is $750.

[5]These were paid at the rate of $35.80 a week for first year apprentices and $15.20 for second year apprentices.

[6]The Special Additional Employment Incentive was one of a package introduced in 1984 to overcome a sharp fall in intakes of apprentices during the 1982-83 recession. It provided $1500 for each additional apprentice, $750 more for additional female apprentices and up to $1000 toward the cost of adapting facilities to accommodate female apprentices.

[7]The wage subsidy in 1985 was either $86.90 or $63.70 a week depending on whether the apprentice wage was greater than or less than the Adult Minimum Wage. The allowance was equivalent to the unemployment benefit plus $23.20 for apprentices under 18 and $46.35 for apprentices 18 and over.

[8]The Committee of Inquiry also had little to say about this group of programs but did encourage the continued development group apprenticeship arrangements.

[9]After negotiation with unions, a trainee wage has been set to be no lower than $90 a week and no higher than the existing hourly rate of pay for the respective occupation.

[10]The allowance is equivalent to the unemployment benefit plus $6 a week and is payable to participants in approved courses which are generally confined to specific trades and result in shortened periods of indenture, or in pre-vocational (trade based) courses relevant to broad occupational groupings. This is available only to those ineligible for higher allowances from other schemes.

[11]It is available to those ineligible for higher allowances from other schemes and is currently $20 a week.

[12]It is equivalent to the unemployment benefit and $46.35 a week for adults and $23.20 a week for trainees under 18.

[13]The allowance is income tested and is equivalent to the unemployment

benefit and a training component of $46.35 for adults and $23.20 a week for trainees under 18.

[14] Wage subsidies are paid to employers at a rate of $86.90 for adults and $63.70 a week for juniors to provide training for an eligible person referred by the public employment office.

[15] Training allowances are paid at a rate equivalent to the unemployment benefit plus $46.35 a week for adults and $23.20 for trainees under 18.

[16] The guidelines require that projects be labor intensive and offer 3 to 12 months work providing worthwhile work experience or training.

[17] See *The Committee of Inquiry into Labor Market Programs* (1985) and *Lewis and Ryan* (1985).

[18] The subsidies paid are $50 a week in respect of young people aged 15 to 17, $75 a week for those aged 18 to 19, and $100 a week for those aged 20 to 24.

[19] The income support is broadly equivalent to unemployment benefits for up to 12 months to assist people through the critical period of establishment of their business.

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